

AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE III

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MOZAMBIQUE
PRIVATE SECTOR
SUPPORT PROGRAM
(656-0208/0218)
EVALUATION

MAY 1995

APAP III
Research Report
No. 1006

Prepared for

Agricultural Policy Analysis Project, Phase III (APAP II)

USAID Contract No. LAG-4201-Q-00-3061-00

Authors: Donald Brown, Development Alternatives, Inc.
David Brown, Development Alternatives, Inc.
Jeff Dorsey, Abt Associates Inc.
Philip Warnken, Abt Associates Inc.

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LIST OF ACRONYMS

AGRICOM	State Enterprise for Agricultural Marketing (now ICM)
APROC	Association of Cereal Processors (small hammer mill operators)
ADRA	Adventist Development and Relief Agency
APAP	Agriculture Policy Analysis Project
BCM	Banco Comercial de Moçambique
BM	Banco de Moçambique
BPD	Banco Popular de Desenvolvimento
CFNPP	Cornell Food and Nutrition Policy Program
CIP	Commodity Import Program
DEA	Department of Agricultural Economics, Ministry of Agriculture
DFA	Development Fund for Africa
DPA	Direcção Provincial de Agricultura
DPCCN	Department for the Prevention and Control of Natural Calamities
FAO	Food and Agriculture Organization of the United Nations
FRELIMO	Frente de Libertação de Moçambique
FY	Fiscal Year
GAO	Government Accounting Office
GDP	Gross Domestic Product
GNP	Gross National Product
GRM	Government of the Republic of Mozambique
ICM	Instituto de Cereales de Moçambique
IMF	International Monetary Fund

JVC	Joint Venture Company
kg	Kilogram
LTC	Land Tenure Center (University of Wisconsin)
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MSU	Michigan State University
MT	Metical (official rate US\$1 = MT6800 on 15.01.94; parallel market MT7700)
mt	Metric Tons
n.d.	no date
NGO	Nongovernmental Organization
NSA	Novo Sistema de Abastecimento (Maputo/Beira rationing system)
OAU	Organization of African Unity
OGI	Open General License (foreign exchange allocation mechanism)
OTM	Organização dos Trabalhadores de Moçambique
PAAD	Program Assistance Approval Document
PACD	Project Activities Completion Date
PFP	Policy Framework Papers
PRE	Programa de Reabilitação Económica (Economic Rehabilitation Program)
PSSP	Private Sector Support Program
PSS/TA	Private Sector Support/Technical Assistance
PVOs	Private Voluntary Organizations
RENAMO	Resistencia Nacional de Moçambique
REDSO	Region Economic Development Support Office

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RSA	Republic of South Africa
SDRs	Special Drawing Rights
SERC	Second Economic Recovery Credit Program
SIDA	Swedish International Development Authority
SIMA	Sistema Informação de Mercado Agrícola
SwFr	Swiss Francs
TA	Technical Assistance
UEM	University Eduardo Mondlane
U.K.	United Kingdom
U.N.	United Nations
UNOHAC	United Nations Office for Humanitarian Assistance Coordination
USAID	United States Agency for International Development
U.S.	United States
WB	World Bank
WFP	World Food Program

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PREFACE

This evaluation was undertaken in Mozambique during a three-week period between January 15, 1995 and February 2, 1995. The evaluation team was composed of two members from Development Alternatives, Inc. and two members from Abt Associates Inc. engaged through the Agricultural Policy Analysis Project (Phase III). This final report incorporates USAID/Mozambique's comments on an earlier draft that was discussed before the team left the country.

The team would like to thank Don Drga, USAID Agricultural Officer, Cheryl McCarthy, USAID Program Officer, Julie Born, USAID Program Advisor, Scott Allen, USAID Program Economist and Tim Born, USAID Commodity Specialist. All of these individuals provided freely of their time while under heavy workloads. Their insights and guidance were very useful. We also would like to thank Fernando Paixão of the USAID Agricultural and Food Resource Office for his help and guidance on our field trips. Dinah Robain was a great help to the team in obtaining appointments and in keeping our schedule. Ana David provided valuable insight into the workings of the CIP. The entire Mission staff was supportive of our efforts.

Because of lack of time the team used secondary data for most of its analysis. Any errors or misinterpretation of this data is our responsibility.

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A

EXECUTIVE SUMMARY

SUMMARY OF FINDINGS

The Private Sector Support Program (PSSP) has successfully completed its initial Policy Agenda. This agenda was a well-conceived document that represented significant and fundamental changes in the agricultural and petroleum sectors. Although formal policy dialogue was sidelined in 1992 by the drought and then again by the transition program after the signing of the peace agreement, informal dialogue and continuing policy advances occurred along agreed-upon lines.

The PSSP Policy Agenda was part of a multi-donor and Government of the Republic of Mozambique (GRM) effort to shift Mozambique from a Marxist-Leninist command system to a democratic, market-based economy. PSSP's niche in this process was supporting the development of the agricultural private sector. PSSP's impact was larger than could reasonably have been expected, given the resources at its command.

Technical assistance and commodity import program components were well executed and mutually supportive. Food aid also contributed to the overall success of the PSSP's Policy Agenda.

Policy Reform Agenda

The six policy reform elements are the following:

Agricultural Pricing Policy. Despite occasional backsliding, liberalization of agricultural prices has progressed to cover nearly all agricultural products and has had a significant impact on agricultural production and on availability of farm products in the market.

Divestiture of State Farms. Divestiture of state farms, which had been an enormous drain on the budget and on investment, has been largely accomplished. On the other hand, resolution of conflicting land claims engendered by this divestiture and of overlapping claims to other land by family farmers, commercial interests, and speculators will be crucial to the development of agriculture and agricultural exports in the future. Addressing this land tenure issue and resolving it equitably are key elements for assuring both food security for the population and political tranquility for the nation.

Private Agricultural Sales and Service. The Commodity Import Program (CIP) provided significant quantities of tractors and other farm equipment and small trucks of appropriate types. This contribution helped reestablish farm production and improved the movement of people and products to and from market centers. The CIP also improved the supply of agricultural inputs. Policy dialogue promoted sector efficiency through the privatization of parastatal agricultural input supply and service conglomerates.

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Access to Foreign Exchange. Significant exchange rate distortions of the past have been eliminated and private sector access to foreign exchange improved. Both of these improvements are attributable in part to U.S. Agency for International Development policy dialogue. In the long run, availability of foreign exchange will depend on increasing export earnings, particularly from agriculture, with support from the PSSP and PSS/TA.

Private Marketing Channels. A functional free market trade in food grain and other foodstuffs has developed to replace the rationing system, which has become less and less able to provide for the food requirements of the populations of Maputo and Beira. Private sector wholesale and retail trade in food grains, beans, and other non-perishable agricultural products has been reestablished, largely superseding the Government purchasing agent, AGRICOM. Retail trade has also been liberalized and expanded as small-scale itinerant traders supply consumer goods to rural areas and scour the countryside for farm products to retail in an increasing number of open-air markets. Domestic purchases of white maize and other products by private voluntary organizations (PVOs) is helping to reestablish the rural market structure.

Marketing of export crops such as cashews and cotton, crucial to raising small farmers' cash incomes, has shown considerable improvement over recent years as marketing boards have been dismantled and their assets privatized. Marketing channels have now been reestablished in most of the country, but barriers remain to new firms eager to export crops such as cashews and cotton. Removal of remaining restrictions on crop exports and of barriers to entry of firms dedicated to their marketing and export is crucial.

Petroleum Importation and Marketing. There is strong and compelling evidence of a direct impact of the PSSP in the substantial policy reforms that have occurred in the importation, pricing, and marketing of petroleum products.

Technical Assistance

The Private Sector Support/Technical Assistance (PSS/TA) project via Cornell University, Michigan State University, and the University of Wisconsin Land Tenure Center provided information and analysis on which to base food security, price and marketing, and land tenure policies within the framework of a market economy. The pilot market information service is widely recognized and needs expansion. Land issues have been brought to the forefront and much of the shape of the policy debate on land issues has been framed. On-the-job training with PSS/TA professionals and degree and non-degree courses in the United States have prepared a small number of Mozambican young professionals to deal intelligently with these issues in the future.

CIP Disbursement Mechanism

The CIP has been adequate to the task for which it was designed and flexible in responding to the changing economic climate. At crucial moments, the program financed petroleum imports without which the economy, including agriculture, would have ground to a

halt. Recent increased interest on the part of U.S. manufacturers in the Southern African market means that nearly all CIP-financed commodities are of U.S. origin. The Government has also adopted a more rational pricing policy toward foreign exchange. This is a policy long advocated by the United States and other donors. The CIP has been forced to take on some functions normally provided by commercial banks due to continuing weakness of the banking system and its failure to mobilize necessary financial resources. At the present time, Mozambique's banking and financial system is not fulfilling the key development role of mobilizing financial resources.

CIP disbursements have contributed positively to the GRM budget through generation of local currency; some MT45 billion has been disbursed, amounting to approximately 1 percent of GRM total revenues over the program's life. Most disbursements went to the University Eduardo Mondlane and the Ministry of Agriculture. The primary impact of the CIP on Mozambique's balance of payments is to provide a net addition to merchandise imports. Over the life of the PSSP, CIP merchandise imports will add net \$64 million to the country's total merchandise imports, or about 1 percent of officially recorded imports in that period.

SUMMARY OF RECOMMENDATIONS

The evaluation team believes that the PSSP program has achieved positive results and has represented an appropriate use of U.S. resources. It has led to change in the basic structure of the agricultural sector and made possible expansion of private sector productivity and income.

Policy Agenda

We recommend that the PSSP program be continued with a revised Policy Agenda including the following:

1. **Price Policy.** USAID should maintain and expand the work undertaken by Michigan State University on market information and should provide continued vigilance on backsliding toward administered prices.
2. **Land Tenure Policy.** USAID should shift the emphasis from divestiture of state farms to the broader issue of resolution of land conflicts, whether regarding state farms or other productive agricultural land. USAID should continue to press policymakers into recognizing publicly the urgency of addressing land tenure issues.
3. **Agricultural Sales and Services.** Although opening up the CIP to sectors other than agriculture was the correct response to changing economic conditions, the CIP should continue to support expanding private agricultural sales and service facilities. USAID should continue its policy dialogue on the need to finish privatizing state-owned agricultural input enterprises. USAID may wish to support the development of rural credit and saving facilities, an area where the United States has special expertise.

4. **Foreign Exchange Policy.** Future policy should focus on complementary measures that enhance access to foreign exchange and mobilize domestic financial resources. The growth of exports, especially agricultural exports, offers the greatest long-run opportunity to increase foreign exchange earnings. Policy dialogue should focus on removing impediments to the reestablishment of the agricultural export base and on promoting its return to the prominence it had in the past.

5. **Policies to Improve Market Access.** The most opportune policy issues for USAID to pursue in the near term to support the private agricultural sector are those related to improving market access. Important activities in this area include divesting state-owned agricultural input and service enterprises; simplifying licensing of traders; reducing transport costs for agricultural products; and reducing barriers to entry into agricultural markets, especially for crops which provide small farmers with cash incomes.

6. **Petroleum Related Policy Issues.** If funds are available, USAID should use PSSP CIP funds for emergency procurement of petroleum products which are non-U.S.-sourced and a recurrent expenditure, if (1) such allocations do not significantly reduce funds available for the capital equipment whose importation they were intended to support, and (2) they lead to achievement of significant and as yet unattained petroleum policy goals.

7. **Food Aid and PSSP Policy Agenda.** Food aid activities directly support elements of the PSSP Policy Agenda. USAID should now:

- Insist on progressive gradual movement of release prices of food aid grain to the dollar border or import-parity price of the same or similar imported products.
- Encourage the establishment and expansion of small millers whose products target low-income consumers.
- Encourage the Government to abandon the Novo Sistema de Abastecimento rationing system, which is no longer fulfilling a useful function.
- Leave food aid distribution to PVOs while the Department for the Prevention and Control of Natural Calamities concentrates on identification and delineation of emergency situations and collaborates in the planning for the food aid.

Technical Assistance

Technical assistance provided by the PSS/TA project has been of overall high quality and relevance.

- USAID should retain technical assistance by the Land Tenure Center at a level commensurate with the importance and urgency of the land issue, whose resolution is crucial to appropriate economic development of rural areas, national food security and maintenance of domestic tranquility.

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- USAID should retain technical assistance by Michigan State University for agricultural prices and marketing and for guidance on movement toward import parity prices.
- The technical assistance teams should be encouraged to continue to expand their contacts with a range of policymakers to maximize the impact of their respective contributions.
- USAID should bring in additional technical assistance on other matters (such as port management and privatization) as they become important during the life of the PSSP and Title III programs.

Program Management

Program management of PSSP has shifted among USAID offices during the course of the program. Policy dialogue has often been on an informal basis. As PSSP moves forward into a new phase, the Mission needs to rethink how it structures the management of the Program and its Policy Agenda. The management and direction of PSSP should be done through a cross-sectional task force under the direction of the Food Resource Office. The Policy Agenda for PSSP should be supported within the task force by the Mission's Program Economist who has responsibility for the whole of the Mission's Policy Agenda.

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RESUMO GERAL

RESUMO DAS CONCLUSÕES

O Programa de Apoio ao Sector Privado (PASP) concluiu, com êxito, a sua agenda de política inicial. É um documento bem planeado que representou mudanças significativas e fundamentais nos sectores da agricultura e do petróleo. Embora o diálogo formal de política tenha sido suspenso em 1992 em consequência da seca e depois novamente devido ao programa de transição após a assinatura do acordo de paz, o diálogo informal e os progressos de política contínuos ocorreram ao longo das linhas acordadas.

A Agenda de Política do PASP fez parte dum esforço de vários doadores e do Governo da República de Moçambique (GRM) no sentido de levar o país do sistema de comando marxista-leninista a uma economia democrática e de mercado. O objectivo do PASP neste processo era apoiar o desenvolvimento do sector agrícola privado. O impacto do PASP foi maior do que se poderia razoavelmente ter esperado, dados os recursos ao seu dispor.

Os elementos de assistência técnica e programa de importação de produtos básicos (CIP) foram bem executados e apoiaram-se mutuamente. A ajuda alimentar também contribuiu para o êxito global da Agenda de Política do PASP.

Agenda de reforma de políticas

Os seis elementos da reforma de políticas são:

Política de preços de produtos agrícolas. Apesar de regressão ocasional, progrediu a liberalização dos preços de produtos agrícolas, abrangendo quase todos os produtos deste sector e exercendo impacto significativo sobre a produção agrícola e a disponibilidade desses produtos no mercado.

Desoneração das propriedades agrícolas estatais. A desoneração dessas propriedades, que representara enorme drenagem do orçamento e investimento, em grande parte foi conseguida. Por outro lado, a solução de reivindicações conflitantes de terras, causadas por essa desoneração, e de reivindicações sobrepostas doutras terras por parte agricultores com família, interesses comerciais e especuladores será crucial para o desenvolvimento da agricultura e das exportações agrícolas no futuro. A abordagem desta questão de posse da terra e sua solução equitativa são elementos chave para garantir tanto a segurança alimentar para a população como a tranquilidade política para o país.

Vendas e serviço privados de produtos agrícolas. O Programa de Importação de Produtos Básicos (PIPB) permitiu volumes significativos de tractores e outros equipamentos agrícolas e pequenos camiões de tipo apropriado. Esta contribuição ajudou a restabelecer a produção agrícola e melhorou a movimentação de pessoas e produtos aos centros de mercado em ambos os sentidos. O PIPB também melhorou o suprimento de materiais agrícolas. O diálogo de política promoveu a eficiência por meio da privatização de conglomerados paraestatais de suprimento de materiais agrícolas e serviços.

Acesso a divisas. Deformações significativas da taxa de câmbio do passado foram eliminadas e foi melhorado o acesso às divisas. Atribuem-se estas duas melhorias, em parte, ao diálogo de política da USAID. A longo prazo, a disponibilidade de divisas dependerá do aumento dos rendimentos provenientes das exportações, especialmente da agricultura, com apoio do PASP e do PSS/TA.

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Canais de comercialização privada. Desenvolveu-se um comércio funcional de mercado livre em cereais e outros alimentos para substituir o sistema de racionamento, que se tornou cada vez menos capaz de atender aos requisitos alimentares das populações de Maputo e Beira. Restabeleceu-se o comércio de vendas por junto e a retalho em cereais, feijão e outros produtos agrícolas não-perecíveis, ocupando o lugar, em grande parte, do AGRICOM, órgão de compras do Governo. O comércio a retalho foi também liberalizado e ampliado à medida que pequenos comerciantes itinerantes forneciam bens de consumo à zona rural e vasculhavam o interior em busca de produtos agrícolas para vender a retalho num número cada vez maior de mercados ao ar livre. As compras internas de milho branco e outros produtos por parte de organizações voluntárias privadas (OVP) estão a ajudar a restabelecer a estrutura dos mercados rurais.

A comercialização de cultivos de exportação, tais como caju e algodão, crucial ao rendimento em dinheiro dos pequenos agricultores, tem demonstrado melhoria considerável nos últimos anos à medida que são eliminados os conselhos de mercados e privatizados os seus activos. Na maior parte do país, já estão estabelecidos canais de comercialização; no entanto, permanecem barreiras a novas firmas ansiosas por exportar cultivos como caju e algodão. É crucial a eliminação das restrições restantes às exportações de cultivos e das barreiras à entrada de firmas dedicadas à sua comercialização e exportação.

Importação e comercialização de petróleo. Há provas sólidas e convincentes de impacto directo do PASP sobre reformas substanciais de política que têm ocorrido na importação, determinação de preços e comercialização de produtos derivados do petróleo.

Assistência técnica

O PSS/TA, por meio das Universidade Cornell, Universidade Estadual de Michigan e Universidade de Wisconsin, tem proporcionado informação e análise para servir de base à segurança alimentar, determinação de preços e comercialização e políticas de posse da terra no contexto duma economia de mercado. O serviço piloto de informação sobre comercialização é amplamente reconhecido e deve ser expandido. Questões relativas à terra têm ocupado o primeiro plano e já está determinada grande parte da forma do debate de política sobre tais questões. A formação no trabalho com profissionais do PSS/TA e cursos com e sem diploma nos Estados Unidos têm preparado um pequeno número de jovens profissionais moçambicanos a abordar inteligentemente essas questões no futuro.

Mecanismo de desembolso do CIP

O programa de importação de produtos básicos (CIP) tem sido adequado à tarefa a que se destinou e flexível na resposta ao clima económico em mutação. Em momentos cruciais, esse programa financiou importações de petróleo sem as quais a economia, incluindo a agricultura, teria ficado paralisada. O recente interesse crescente, por parte de industriais dos Estados Unidos, no mercado da África Austral significa que quase todos os produtos básicos financiados pelo CIP provêm dos E.U.A. O Governo de Moçambique também adoptou uma política de preços mais racional com relação à divisa. Trata-se de política proposta há muito tempo pelos Estados Unidos e por outros doadores. O CIP tem-se visto forçado a assumir funções normalmente desempenhadas por bancos comerciais, em virtude do enfraquecimento contínuo do sistema bancário e de sua incapacidade de mobilizar os recursos financeiros necessários. No momento, o sistema bancário e financeiro de Moçambique não está a desempenhar o papel chave de desenvolvimento de mobilizar recursos financeiros.

Os desembolsos do CIP contribuíram positivamente para o orçamento do GRM por meio da geração de moeda local; cerca de MT45 bilhões foram desembolsados, perfazendo aproximadamente 1 % do total

de receitas do GRM no período de duração do programa. A maioria dos desembolsos destinou-se à Universidade Eduardo Mondlane e ao Ministério da Agricultura. O impacto principal do CIP sobre o balanço de pagamentos de Moçambique é proporcionar um acréscimo líquido às importações de mercadorias. No período de duração do PASP, as importações de mercadorias do CIP acrescentarão US\$64 milhões ao total de importação de mercadorias do país ou cerca de 1% das importações oficialmente registadas nesse período.

RESUMO DAS RECOMENDAÇÕES

Na opinião da equipe de avaliação, o PASP conseguiu resultados positivos e representa um uso adequado dos recursos dos Estados Unidos. Levou à mudança na estrutura básica do sector agrícola e tornou possível uma expansão da produtividade e do rendimento do sector privado.

Agenda de política

Recomendamos que o PASP continue com uma agenda de política que inclua o seguinte:

1. **Política de preços.** A USAID deve manter e ampliar o trabalho realizado pela Universidade Estadual de Michigan no campo da informação de mercados e deve vigiar continuamente para não regressar a preços administrados.
2. **Política de posse da terra.** A USAID deve transferir a ênfase da desoneração de propriedades agrícolas estatais para a questão mais ampla da solução de conflitos relacionados com a posse da terra, seja no que diz respeito às fazendas estatais ou a outras terras agrícolas produtivas. A USAID deve continuar a pressionar os responsáveis pela formulação de políticas no sentido de reconhecer publicamente a urgência de tratar de questões de posse da terra.
3. **Vendas e serviços agrícolas.** Embora a abertura do CIP a outros sectores para além da agricultura tenha sido a resposta correcta às condições económicas em mutação, o CIP deve continuar a apoiar a expansão das instalações privadas de vendas e serviços agrícolas. A USAID deve continuar seu diálogo de política sobre a necessidade de concluir a privatização de empresas de materiais agrícolas de propriedade estatal. Seria conveniente que apoiasse o desenvolvimento de mecanismos de crédito e poupança rurais, área em que os Estados Unidos têm perícia especial.
4. **Política de divisas.** A futura política deve focalizar as medidas complementares que melhorem o acesso às divisas e mobilizem os recursos financeiros internos. O aumento das exportações, especialmente das exportações agrícolas, oferece a maior oportunidade a longo prazo para elevar o rendimento proveniente de divisas. O diálogo de política deve concentrar-se na remoção dos obstáculos ao restabelecimento da base de exportação agrícola e na promoção do seu retorno à proeminência de que gozava no passado.
5. **Políticas para melhorar o acesso ao mercado.** As questões de política mais oportunas para a USAID abordar a curto prazo a fim de apoiar o sector agrícola privado são as relacionadas com a melhoria do acesso ao mercado. Actividades importantes nesta área incluem: desoneração de empresas de materiais e serviços agrícolas de propriedade estatal; simplificação de licenciamento de comerciantes; redução dos custos de transporte de produtos

agrícolas; e redução de barreiras à entrada nos mercados agrícolas, especialmente de cultivos que proporcionam rendimento em dinheiro aos pequenos agricultores.

6. **Questões de política relacionadas com o petróleo.** Se houver disponibilidade de fundos, a USAID deve usar os fundos do PASP do CIP para a aquisição de emergência de produtos derivados do petróleo, que são fonte não-relacionadas com os Estados Unidos e despesa recorrente, se 1. tais repartições não reduzirem, de modo significativo, os fundos destinados à aquisição de equipamento, cuja importação visavam a apoiar; e 2. levarem à realização de metas da política de petróleo significativas e até agora não alcançadas.
7. **Ajuda alimentar e agenda de política do PASP.** As atividades de ajuda alimentar apoiam directamente os elementos da agenda de política do PASP. A USAID deve agora:
 - Insistir na passagem gradual e progressiva da liberação dos preços de cereais da ajuda alimentar estrangeira para o preço fronteiriço ou paritário das importações de produtos idênticos ou semelhantes.
 - Incentivar o estabelecimento e a expansão de pequenos proprietários de moinhos, cujos produtos visam a consumidores de baixo rendimento.
 - Incentivar o Governo a abandonar o sistema de ração NSA, que já não realiza uma função útil.
 - Deixar a distribuição de ajuda alimentar às OVP, concentrando-se o Departamento de Prevenção e Controlo de Calamidades Naturais na identificação e no delineamento de situações de emergência e na colaboração no planeamento da ajuda alimentar.

Assistência técnica

A assistência técnica prestada pelo projecto PSS/TA tem sido, em geral, de alta qualidade e relevância.

- A USAID deve manter a assistência técnica prestada pelo Centro de Posse da Terra a um nível comensurável com a importância e urgência das questões relacionadas com a terra, cuja solução é crítica para o desenvolvimento económico adequado da zona rural, segurança nacional de alimentos e manutenção da tranquilidade interna.
- A USAID deve manter assistência técnica prestada pela Universidade Estadual de Michigan no tocante a preços agrícolas e comercialização e à orientação a respeito da passagem para preços paritários das importações.
- Deve-se incentivar as equipas de assistência técnica a continuar a expansão dos seus contactos com uma série de pessoas responsáveis pela formulação de políticas, a fim de maximizar o impacto das respectivas contribuições.
- A USAID deve contratar assistência técnica adicional em outros campos (tais como gestão e privatização de portos) à medida que se tornarem importantes no período de duração do PASP e dos programas do Título III.

Gestão de programas

A gestão de programas do PASP passou para diversos escritórios da USAID no curso do programa. O diálogo de política tem sido frequentemente informal. À medida que o PASP entrar numa nova fase, a Missão precisa reformular o modo de estruturar a gestão do Programa e da sua agenda de política. A gestão e direcção do PASP e da sua agenda de política devem ser feitas por meio de um grupo de trabalho intersectorial, sob a direcção do Escritório de Recursos Agrícolas e Alimentares. A agenda de política do PASP deve ser apoiada, no âmbito do grupo de trabalho, pelo economista de programas da Missão, responsável por toda a agenda de política da mesma.

16-

1. BACKGROUND ON THE PRIVATE SECTOR SUPPORT PROGRAM

In 1987, after tentative efforts at reform, the Government of the Republic of Mozambique (GRM) launched a program of fundamental economic change known as the *Programa de Reabilitação Económica* (PRE). PRE created the framework to reverse years of failed economic policies and social and political upheaval. This effort resulted in a fundamental turnaround in the country's economy. The PRE was supported by the World Bank and the International Monetary Fund (IMF), which had provided much of the intellectual input into its conception.

USAID provided additional support to this policy reform effort through the Private Sector Support Program (PSSP) which began in 1989. PSSP was a continuation of a Commodity Import Program (CIP) begun in 1985. The PSSP started as a \$53.4 million, three-year non-project assistance activity supporting the GRM in making policy reforms in the food and agriculture sector. The program is now at an authorized level of \$64.4 million. In addition to the non-project assistance, the U.S. Agency for International Development also provided \$13.45 million of technical support for research and related activities of the PSSP policy reform agenda through the Private Sector Support Technical Assistance (PSS/TA) project.

PSSP funds are disbursed through a CIP. The CIP initially provides foreign exchange to the private sector for importation of commodities related to agricultural activities. The program was amended in 1991 to allow importation of petroleum products by the state petroleum parastatal Petromoc.

The PSS/TA funds are used to support three collaborative research programs (Michigan State University (MSU), Cornell University, and the University of Wisconsin Land Tenure Center (LTC). These collaborative efforts assisted Mozambican policymakers to acquire and analyze information related to the PSSP Policy Reform Agenda.

The purpose of the PSSP Policy Reform Agenda is to improve incentives for private sector agricultural production. The Policy Agenda was developed within the overall context of PRE and the Policy Framework Papers of the GRM, World Bank, and the IMF.

The PSSP Policy Reform Agenda initially included reforms in four areas: (i) agricultural price policy; (ii) divestiture of state farms; (iii) private agricultural sales and services; and (iv) access to foreign exchange. In 1990 reforms related to private marketing channels were added and in 1991 reforms related to petroleum importation and marketing were also added. No significant changes in the Policy Reform Agenda have taken place since then. A summary of the PSSP Policy Reform Agenda is seen in Table 2.1.

In November 1991, a four person team contracted through the centrally-funded Agricultural Policy Analysis Project (APAP) evaluated PSSP. The present evaluation is a continuation of that initial evaluation effort. This evaluation looks specifically at the progress,

evolution and impact of PSSP and PSS/TA from the late 1991 period to the present (see Evaluation Methodology, section 1.3).

1.1 Developments in Mozambique since 1991

Since 1991, two events—one environmental, the other political—have had significant impact on development activities in Mozambique. The first event was an extremely severe drought that began in late 1991 and carried over into 1992. Corn production dropped by almost 30 percent. This global figure masks the severity of the problem, as the northern, more fertile regions had a surplus at the time. The central and southern parts of the country, however, bore the brunt of the drought. The drought threatened millions of Mozambicans and caused a major increase in displaced people. In mid-1992, the GRM declared an emergency, and donors, including USAID, responded quickly and massively to prevent a major humanitarian disaster. This effort, while successful, diverted both the GRM and USAID's attention from the dialogue on PSSP's Policy Reform Agenda.

The second significant event was the October 4, 1992 signing of a peace agreement between the ruling *Frente de Libertação de Moçambique* (FRELIMO) Government and the *Resistencia Nacional de Moçambique* (RENAMO) rebels. The agreement came out of negotiations held in Rome between the warring parties who had been negotiating since mid-1990. The peace agreement stipulated a cease-fire and the holding of multiparty elections within the year. This timetable was too optimistic, and actual implementation of the agreement was slow and tortuous. The U.N. peacekeeping force projected to implement the cease-fire was not fully installed until mid-1993. Actual demobilization of both forces did not start until mid-March 1994. The planned elections were delayed until October 1994.

Both of these events caused a significant distraction of both the GRM and USAID from active pursuit of the PSSP Policy Reform Agenda. Nevertheless, progress on the Agenda did continue, but at a slower pace than might have occurred if these distractions had not happened. Section 2 details activities related to the Policy Agenda and their impact since 1991.

1.2 Evolution of PSSP since 1991

The PSSP has continued to evolve since the 1991 evaluation. Table 1.1 shows the evolution of the program. As can be seen in Table 1.1, by 1991 the PAAD had four amendments, the Project Agreement had five amendments, and the technical assistance (PSS/TA) component of the program had a single amendment. Since that time the Program Assistance Approval Document (PAAD) has been amended twice. In July 1992, the PAAD was amended to expand the list of eligible commodities available under the CIP. The PAAD was further amended in September 1992 to authorize an additional \$8 million for the program, to extend the end of the program to the end of 1994, and to change the terms available to importers. These changes in the PAAD are reflected in two parallel amendments to the Project Agreement.

Table 1.1 Private Sector Support Program and Technical Assistance Evolution of Program

Date	Private Sector Support Program				Technical Assistance			
	PAAD:0208		ProAg:0208		PP:0218		ProAg:0218	
Aug - 89	Original	Auth. \$13.55 m	Original	Oblig. \$13.55 m	Original	Auth. \$1.5 m	Original	Oblig. \$1.5 m
Jun - 90	Am. 1	Auth. \$12.5 m					(FY90)	Oblig. \$0.598 m: various contracts
Jul - 90	Am. 2	Auth. \$10.0 m: added mktg. policy reform	Am. 1	Oblig. \$12.5 m				
			Am. 2	Oblig. \$10.0 m				
Jan - 91			Am. 3	Revised terms for generation & use of counterpart funds.				
Mar - 91					Am. 1	Increase Auth. by \$1.5 m (\$3.0 m LOP)	Am. 1	Increase oblig. by \$1.5 m (\$3.0 m LOP)
May - 91	Am. 3	Auth. CIP financing of petroleum & added petroleum policy reforms	Am. 4	Add petroleum to list of CIP - eligible commodities & add petroleum reforms to policy agenda				
Jun - 91	Am. 4	Auth. \$17.39 m					Orig. ProAg.	Oblig. \$1.902 m
Jul - 91			Am. 5	Oblig. \$17.39 m				
Apr - 92					Am. 2	Increase auth. by \$0.5 m (\$3.5 m LOP)	Am. 2	Increase oblig. by \$0.5 m
Jul - 92	Am. 5	Auth. CIP financing all eligible commodities	Am. 6	Add all eligible commodities to CIP				
Sep - 92	Am. 6	Auth. \$8 m: extend program to 12-31-94	Am. 7	Oblig. \$8 m: extend program to 12-31-94	Am. 3	Increase auth. by \$10 m (\$13.5 m LOP)	Am. 3	Increase oblig. by \$10 m (total LOP \$13.5 m)
Jan - 95							Am. 4	Extend PACD to 12-31-95

The PSS/TA has been amended twice since 1991. In September 1992 the Project Activity Completion Date (PACD) was extended to the end of 1995. In January 1995 the PACD was extended again to the end of 1997. This second amendment also included new activities under the Agricultural Recovery Program. The project is to help in the reestablishment of cashew production in the Nampula region where trees were damaged in 1994 by Cyclone Nadia.

There have been no additional items added to the policy agenda since 1991. Policy objectives for 1991/92 and 1992/93 were defined by USAID with the Government and the Letters of Intent to meet these objectives were signed by the GRM. These objectives further refined and delineated specific aspects of the existing Policy Reform Agenda. USAID has not sought to add additional policy objectives.

1.3 Evaluation Methodology

This second evaluation of the PSSP has terms of reference almost identical to those of the first evaluation of the program (see Annex A). The main objective of the first evaluation, like that of the present one, was to determine whether PSSP is a well-conceived program and to see how well it achieved the desired impacts of the program design. In addition, both evaluation teams were asked to make recommendations on possible changes in the policy agenda and the operations of the program to better achieve program objectives. Because of the similarity of the terms of reference, and desire to have an evaluation that is both linked to and additive to the first evaluation, this evaluation places its emphasis on the period from November 1991, when the first evaluation was done, to the present. Specific details on the program's background not directly relevant to the present situation of the program have not been repeated here.

The evaluation was done by a four-person team that spent three weeks in Mozambique in January 1995. The team was made up of an agricultural and food policy specialist/team leader, a rural development specialist, an economist, and an agribusiness and marketing specialist.

The team divided its work among the team members. The economist remained in Maputo working with macroeconomic issues related to foreign exchange, CIP, balance of payments, and the banking sector. The rural development specialist and agribusiness and marketing specialist took two field trips. One trip was to the Nampula region, where they were able to observe a household study being undertaken by MSU, under one of the PSS/TA cooperative agreements. They also held discussions with farmers, business people and Government officials in this generally food surplus region of northern Mozambique. The second trip was a two-and-a-half-day trip to the Gaza region to assess CIP imports directly. The agricultural and food policy specialist also participated in this second trip.

Interviews were conducted with a wide range of individuals within USAID, and with GRM officials, representatives from other donors, private voluntary organizations (PVOs), and contracted technical assistance staff. A list of people contacted is provided in Annex B. The team also reviewed a number of documents related to the PSSP activities. The APAP core staff collected a number of documents from sources in Washington, D.C. These documents were used by the team and left with the Mission. A complete list of documents referred to is seen in Annex C.

Before departing the country, the team made a presentation to the staff of USAID on its findings and recommendations. A draft of the evaluation was also left with the Mission. Comments from the Mission on this draft were incorporated into the final evaluation report.

1.4 Report Structure

This evaluation report is organized in a manner similar to that of the 1991 evaluation. The emphasis of the two evaluations, however, is quite different. The 1991 evaluation documented the background and early history of the program and alluded to areas of possible impact. Because of the difficult security situation in the country at that time and the lack of data, it was difficult for the initial evaluation to get a good view of the impact of the program. The present evaluation continues the documentation of project operation since 1991 but puts more emphasis on assessing program impact and potential future directions.

Section 2, in particular, focuses on PSSP's Policy Agenda and its impact. The six policy areas are looked at in turn with a description of post-1991 activities and a discussion of the impact of each particular policy area. This section also looks at related impact questions including gender and food aid.

USAID's role in the program is looked at in section 3. This role has four major components: policy dialogue, integration of policy agendas, program monitoring, and program management. In section 4, the role of technical assistance provided through the PSS/TA project is examined. The CIP is reviewed in section 5, and issues related to foreign exchange management and the banking sector are covered in section 6.

A summary of the evaluations team's findings in each of the above areas is contained in section 7. Finally, section 8 provides a summary of the evaluation team's recommendations.

2. THE PSSP POLICY AGENDA AND ITS IMPACT

The Private Sector Support Program seeks to increase the Mozambican private agricultural sector's production and income by providing necessary incentives within the economy for agricultural production and marketing. The principal tool used by the program to achieve this objective is a Policy Reform Agenda. The six areas that form this agenda focus on the long-term economic growth of the agricultural private sector. The evaluation looks at each of these six areas in terms of events during the past three years and the program's impact in achieving its objectives.

2.1 Overview

The 1991 evaluation of the PSSP program noted the importance of looking at policy changes at two distinct levels. The first level is policy formulation and pronouncement. The second level is policy implementation. The former level is very much the province of PSS/TA, USAID, and other donors working with the GRM, which in the end is responsible for the policy direction in the country. Policy implementation, on the other hand, is a complex of country-wide activities involving not only the above actors but many private entrepreneurs, power brokers, local politicians and local leaders.

In 1991, the evaluation team was given a daunting task when asked to evaluate the impact of PSSP. The difficulty resulted from a number of factors, including the limited technical monitoring that had been completed by PSS/TA, the still incomplete enactment on the part of the GRM of the Policy Agenda, and the extreme difficulty for donors, Government officials and technical staff of travel outside the city of Maputo. The country at that time was essentially in a state of war. Today, however, most of those problems have been resolved. A number of studies on the agricultural economy have been done. Almost all of the policy objectives of the Policy Reform Agenda have been satisfied. Travel to all parts of the country is now possible.

Although many of the difficulties of evaluating the impact of the PSSP Policy Reform Agenda have been removed, there still remains a fundamental question in evaluating this impact. The GRM has made a number of policy changes since 1987. As will be demonstrated below, there is ample evidence, both aggregate and anecdotal, to confirm significant positive impact of these policy changes. The question remains, however, can specific impact be attributed directly to the PSSP? The answer is no. Direct attribution, however, is not required to prove the benefit of the program. PSSP is an important contributor to the joint efforts of the GRM, World Bank (WB), IMF, and other donors in reorienting the direction of the Mozambique economy toward market-based sustainable growth. The PSSP plays a dominant role in this effort in the agricultural private sector, an important element in the overall policy reform effort. Thus, the PSSP can rightly take credit for success seen in this area. The PSSP can be positively associated with Mozambique's remarkable economic turnaround since economic reforms started in 1987.

Table 2.1 Mozambique Private Sector Support Program (656-0208)
Summary of Policy Objectives and Work Plan
 (August 1992 revision)

Page 1 of 3 Pages

POLICY AREAS	1989/90	1990/91	1991/92	1992/93	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION
1. Agricultural Pricing Policy	OBJECTIVE: To maximize the liberalization of the agricultural pricing system and, for crops where full deregulation may not be presently feasible, institutionalize procedures for basing agricultural prices on world parity.				Price changes and announcements.	Production increases on family and commercial farms. Farm income increases on family and commercial farms. More consistent supply in markets throughout year. Reduced volatility in open market consumer prices.	Production statistics by crop, province, farm type. Selected household and farm surveys. Selected market surveys. Selected market surveys.
a. Maize, beans, rice	Establish parity producer prices; plan for floor prices system. (note: beans actually moved to floor price in 1989)	Move white maize to parity-based producer floor price system; continue parity-based producer floor price for beans; adjust parity-based producer price of rice; assess impact and make recommendation re: rice.	Adjust producer floor prices to maintain parity base.	Assess impact on production and marketing of the price changes made to date, including yellow maize food aid.			
b. Cash Crops	Establish parity-based floor price system.	Adjust floor price to maintain parity base.	Adjust floor price to maintain parity base.	For all crops whose price cannot be fully deregulated, adjust floor prices to maintain parity base at market exchange rate.			
c. Consumer prices		Deregulate consumer price for white maize; assess impact; make recommendation re: beans and rice.	Deregulate consumer price for rice by January 31, 1992	Explore option and develop program for moving to parity-based pricing for commercial food aid.			
2. Divestiture of State Farms	OBJECTIVES: To develop and initiate the implementation of an action plan (including supporting policies for rational land redistribution, titling, and registration) to redistribute state farms to commercial and family farmers.				Declared policies on land redistribution including divestiture and titling procedures. Development and promotion of divestiture programs. Announcement of Land Commission.	Farms privatized or closed. Production increased on divested farms. Farm income increased.	Statistics on actual and planned divestitures. Production estimates by crop in selected divestiture areas through rapid reconnaissance and case studies. Selected farm and household surveys.
a. Planning and implementation	Continue case-by-case divestitures of state farms. Identify issues and policies to be addressed in divestiture program. Complete terms of reference for additional tenure analyses and design of divestiture program.	Implement analysis program on tenure issues. Complete general divestiture program design. Complete design of USAID-financed program for divestiture policy research and analysis.	Maintain credit and subsidy ceilings for state agricultural enterprises. Continue divestitures. Continue analysis of divestiture experience and development of policies and guidelines. Develop, announce, implement procedures to increase transparency of divestiture process.	Maintain credit and subsidy ceiling for state agricultural enterprises. Continue closures and divestitures of state farms. Constitute a national Land Commission to address land issues. Develop, announce, implement procedures to increase transparency of divestiture process.			

Table 2.1 Mozambique Private Sector Support Program (656-0208)
Summary of Policy Objectives and Work Plan
 (August 1992 revision)

Page 2 of 3 Pages

POLICY AREAS	1989/90	1990/91	1991/92	1992/93	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATIONS
3. Private Agricultural Sales and Services	OBJECTIVE: To demonstrate the effectiveness and viability of private sales and service networks for providing agricultural inputs to commercial and family farmers throughout the country.				Percentage of private companies / traders participating in program.	Wider and better access to agricultural inputs.	Statistics on numbers of private importers and dealers by input type and province.
a. For importer and distributors	Continue private importation and distribution of all USAID commodities; exemption for lubricants and limited spares. Replace GRM administrative allocation system with direct private sales.	USAID commodity imports fully private (except for petroleum); plan to privatize ag-related public enterprises. Maintain.	Maintain private import / distribution of USAID-financed commodities (e.g., petroleum). Continue privatization of ag-related state enterprises. Continue direct private sales to end users.	Maintain private import / distribution of USAID-financed commodities (e.g., petroleum). Continue privatization of ag-related state enterprises. Continue direct private sales to end users.	Elimination of "credential system" for end users.	Expansion of privatization.	Sampling of farmer attitudes toward supply networks. Sampling of dealers to assess constraints to expansion.
4. Access to Foreign Exchange	OBJECTIVE: To establish a process of testing foreign exchange allocation options that will increase the access of private entrepreneurs in the agricultural sector to foreign exchange and institutionalize market signals as an allocation mechanism.				Implementation of FX allocation options agreed upon with donors.	Increase access to foreign exchange at market-determined price.	Survey of FX buyers and sellers to determine private sector access to FX.
a. Allocation Mechanism	Establish limited trail of OGL System.	Evaluate effectiveness of OGL trail (with IBRD and USAID follow-up). If trial is generally successful, modify and expand eligible sectors under OGL; otherwise formulate new options.	Establish "negative list" for imports at official exchange rates; move non-traditional exports to MC. Unify official and MC exchange rates by March 1992. Develop plans for market-based allocation / pricing of FX following unification.	Maintain private sector access to FX through new foreign exchange market rates (tied aid and untied windows). Develop plans for market-based allocation of FX through commercial banks. Analyze constraints to a functional commercial banking sub-sector and set priorities to address them.	Increased range of eligible sectors and commodities, and volumes of FX available at market-determined price.		Trends in band and parallel exchange rates.

Table 2.1 Mozambique Private Sector Support Program (656-0208)
Summary of Policy Objectives and Work Plan
(August 1992 revision)

Page 3 of 3 Pages

POLICY AREAS	1989/90	1990/91	1991/92	1992/93	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATIONS
5. Private Marketing Channels	OBJECTIVE: To reduce restrictions on competitive private sector trade and transportation serving agricultural producers in Cabo Delgado, Nampula, and Zambezia provinces.				Announcement and promotion of deregulations.	Increased number of active traders and transporters.	Sampling of traders / transporter / farmers.
a. Movement of Commodities		Rescind regulatory restrictions on inter-district and inter-provincial movement of agricultural commodities.	Assess impact	Develop program for privatization of parastatal truck fleets (AGRICOM, DPCCN, CAMOC, possibly TRANSCARGA).		More consistent supply of commodities in markets throughout the year.	Market surveys.
b. Wholesaling		Open district wholesaling opportunities to any licensed trader desiring to compete.	Assess impact.	Lift all fixed tariffs for private road transport.		Increased producer access to consumer goods and other 'incentive' commodities.	Sampling of farmers.
c. Licensing		Analyze licensing requirements for private marketing agents at all levels to assess disincentive effects.	Complete analysis and take steps to simplify licensing requirements to encourage new competitors.	Continue analysis of non-tariff barriers to private wholesaling, storage, processing, transport; identify corrective measures.		Improved food balances between deficit and surplus production areas.	
6. Petroleum Importation and Marketing	OBJECTIVE: To promote increased and more reliable access to selected petroleum products at import parity prices based on the market exchange rate.				Announcement and promotion of price changes and de-regulations.	More consistent supply of and access to petroleum products nationwide.	Sampling of farmers, transporters, traders, and industries.
a. Pricing			Maintain consumer price for gasoline at or above import parity at the MSC rate and continue to adjust consumer price of diesel to reflect exchange rate and international price changes.	Complete domestic study for avgas, and develop proposal for moving to free market for distribution of diesel and gasoline.		Private sector importation and distribution of avgas.	Sampling of importers / distributors.
b. Deregulation			Complete analysis and implement recommendations for deregulating imports, distribution, and pricing of avgas.	By 9/92 begin private import of avgas; by 1/93 amend laws and regulation to permit free import of avgas.			Trends in price of diesel and gasoline.
			Analyze import and distribution of petroleum products to identify further measures to support a more efficient market for these.	Monitor impact of liberalization on price / availability of avgas as a prototype for other fuels.			

At this point, the PSSP has established a Policy Agenda and negotiated through a policy dialogue the substance of that Agenda with the Mozambique Government. The associated commodity import program and technical assistance components are also performing successfully. USAID is now at a point where it can build upon the initial effort to improve the enabling environment of the agricultural private sector with additional policy changes and refinements. In reviewing the effort of PSSP to enact the various elements of the Policy Agenda, seen below, the evaluation team makes recommendations on potential follow-on policy issues related to each agenda element.

2.2 Agricultural Pricing Policy

As seen in Table 2.1, the initial element of the Policy Reform Agenda deals with agricultural pricing policy. The objective of this element is to maximize liberalization of the agricultural pricing system and, for crops where full deregulation may not be feasible at present, institutionalize procedures for basing agriculture prices on world parity. The 1991 evaluation noted that at the time of that evaluation (November 1991), agricultural price policy reforms had been successful in eliminating the fixed price system and removing the illegality of selling above, or below, the Government established price. The evaluation also noted, however, that the new floor price system often served the function of a reference price rather than a true Government price support. With more open markets and the ineffectiveness of the Government's purchase system, this floor price no longer seems to be a significant problem.

2.2.1 Agricultural Pricing Policy Since 1991

The evolution of the agricultural pricing policy since the 1991 evaluation has been toward a steady increase in reliance of the Government and the economy on market-based prices with occasional significant slippages. For example, an important advance in price policy was made in May of 1992 when, as part of the GRM annual establishment by cropping season of minimal (floor) prices for the five principal domestically produced marketed crops—maize, rice, beans, peanuts and sunflowers, the GRM also freed the marketing margins between the producer and the final consumer. This margin had previously been fixed. Prices on imported maize, milled rice and domestic maize, however, continued to have fixed prices and marketing margins.

A more significant breakthrough occurred in July 1993, when the GRM decreed that prices on a large number of food goods were to be liberalized in pursuit of the "development of free competition in the market." Maize meal, cooking oil and rice were among the goods covered in this decree. In early April 1994, liberalization continued for a large number of other products including beer, tea, matches, and cement. This progress in liberalizing the food market hit a major snag, however, in the latter part of the same month.

As the economic reforms undertaken by the GRM began to show fruit, the Mozambican economy began to have strong economic growth. A down side of this growth was the corresponding inflation that had a particular negative impact on the poor in the country. In response to rising prices, a proposal was developed among a major labor union, *Organização dos Trabalhadores de Moçambique* (OTM), business organizations and the Government to set ceiling prices to consumers, that is, fix prices, on a number of food goods in the Maputo area. The proposal was structured to give a little something to everyone. Traders, for example, were to get exemptions on the circulation tax and a 50-percent cut in custom duties on imported food goods and on other goods under the proposal. These goods included yellow maize and maize

meal, rice, sugar and cooking oil. For this financial benefit, the traders agreed to a 7 percent cut in their profit margin. The unions, on the other hand, sought an indexing of the minimum wage to inflation and agreed not to call a general strike. The deal was struck and an agreement was signed by all parties.

At that point a number of interesting things happened. The *Direcção Nacional de Economia Agrária* (DEA) in the Ministry of Agriculture (MOA), which is supported by MSU under the PSS/TA, released a study on the proposal the day after it was announced. Using the data from the project-created Market Price and Supply Information (SIMA) data base, this study noted that the existing market prices for yellow maize and, in most cases, rice were below the fixed price of the proposal. Sugar and oil prices were higher than the stated fixed price. From this study it was evident that traders in maize and rice could actually increase their profits by raising their prices to the higher set fixed price.

USAID also moved quickly. Using the DEA study, USAID began consultation with the GRM to get them to retract their agreement on the proposal. A formal renouncement of the proposal was never done but, *de facto*, the fixed price proposal never got off the ground. The Government side-stepped the exemption of the circulation tax and reduction of customs duties, and traders continue to set their prices according to the market.

The Government retains a tendency to administer prices. Until recently the Government went through an annual exercise to set floor prices on most food products. Initially traders and consumers used these floor prices as a replacement for the old fixed prices of the previous regime. As people become more assured of the market process, these floor prices are becoming more and more irrelevant. Nevertheless, the Government has yet to formally stop this whole exercise.

A more troublesome example has been the efforts of the Government through the agricultural parastatal AGRICOM to purchase locally produced maize in the countryside. From time to time AGRICOM and its successor *Instituto de Cereais de Moçambique* (ICM) have announced high prices for producers' maize that, because of lack of funds, they are unable to procure. This action badly disrupts the market. Recently, for example, WFP was attempting to purchase local maize in surplus areas for distribution to deficit regions of the country. For that particular growing season, AGRICOM announced a price of 700 kg/mt, despite not having funds to support this price. The World Food Program (WFP), which was paying the market-based rate of 540 kg/mt, complained that the action of AGRICOM was interfering with its purchases, and AGRICOM reduced its declared purchase price to 550 kg/mt. AGRICOM, lacking funds, did not purchase any local maize.

The lessons from these experiences are that efforts to change the pricing structure for agricultural products in Mozambique from a command to a market-based system has not yet been fully achieved. The agreements to do so by the GRM are in place. Much of the market is now responding to the agreements. But there will need to be continual vigilance to see that, at the first major crisis, the old regulated pricing system does not return.

2.2.2 Impact of Pricing Policy

Before 1987 the selling and buying of agricultural goods in Mozambique was controlled not only in terms of price but also in terms of who should sell and when and where. Price

liberalization is really only a subset of market liberalization. The impact of the liberalizing of agricultural prices has to be examined not only by price but by the entire market clearing mechanism for agricultural goods. Some of the impact of liberalization can be seen in the expansion of markets (see sections 2.4.2 and 2.6.2). Availability of foreign exchange made imported goods available in the market, which, in turn, gave value to money earned from selling food goods (see section 2.5.2).

Liberalization of agricultural prices has meant that functional agricultural markets are now legal; thus transaction costs are lower. Many people, particularly poor women, have entered into petty trade in agricultural products (see section 2.8). The result has been that, even with a major drought and civil upheaval, economic growth in Mozambique has been extraordinary. Overall growth of gross domestic product (GDP) has increased on average 4 to 5 percent since the reforms were started (Kyle 1994). Even more important, because producer prices had been held down for so long under the fixed price regime, once they became free, real producer prices showed a marked increase. Kyle shows that from 1986 to 1989 real producer prices for maize, for example, almost tripled. Once this pent-up pricing pressure was removed, however, real prices have moved up more slowly and have fluctuated in response to supply and demand.

2.2.3 Recommendations for Future Price Policy Activity

On paper, most of the policy reforms related to agricultural prices are in place. Nevertheless, events of the past few years indicate that three continuing actions should be undertaken to hold and solidify these reforms in practice within the markets. These are:

1. Maintain and expand the work supported by MSU under the PSS/TA on the SIMA. Information is the best tool both to make and to monitor agricultural pricing policy. A broader understanding of free market prices by province and district officials and market participants will help in educating them on how markets work.
2. Maintain a continued vigilance on backsliding to administered prices. Proposals like that made in April 1994 by the unions, traders and the Government to fix prices in order to achieve a social good are seductive to people who do not yet fully value the workings of a market economy.
3. Strongly encourage the Government not to continue activities to try to reestablish some form of administrative prices in the market either through setting unenforceable floor prices or through buying campaigns for local maize. These activities lead only to confusion and inefficiency in the market.

2.3 Divestiture of State Farms

Land issues continue to be among the hottest topics of debate in Mozambique. They are much on the minds of politicians, local people, and journalists. The major change since 1991 is that state farm divestiture is now recognized as only one part of the land security problem. State farm divestiture is viewed by many as having been badly handled yet largely completed and irreversible. The attention of leaders and analysts is now turning to the land access and equity problems being encountered by rural families and small farmers as they try to make new beginnings in Mozambique's post-war economy. USAID has had an important role since 1990

in bringing pivotal land tenure problems to the surface in Mozambique. The next step is to encourage policymakers to bring emerging land issues to the top of their action agendas and to help them fashion the specific improvements that need to be made in law, procedures, and relationships with local people.

2.3.1 History of Land Tenure Issues

The problem is multifaceted. The process of displaced rural families' beginning to return to their former locations, the appearance of commercial land investors, and closed dealings with some government officials have created many land occupancy conflicts and abuses. Roles of customary and legal authority in resolving disputes are not well established. Land tax collection is not being enforced, and there has not yet been orderly discussion of how much land should be taxed in the first place. Farmers without secure occupancy find it hard to obtain capital. Government offices cannot keep up with the volume of work related to land transfers and verification of rights to land. Urban settlements and industry are starting to encroach upon the rural areas. Demand for access to Mozambique's timber and mineral resources is likely to intensify. If rights are not defined carefully, these pressures could lead to new kinds of political and legal conflicts, and unnecessary land, water quality, and coastal resource degradation.

During the 1991-1992 period, USAID/Mozambique, via its own staff and via the Land Tenure Center team from the University of Wisconsin, made a concerted effort to monitor and appraise constructively the state farm divestiture process. No single GRM office was able (or willing) to provide a clear, complete picture. USAID and the LTC had to piece information together from public records of individual land transfers, newspaper clippings, and other sources.

According to a USAID listing obtained from Ministry of Agriculture sources, the early-1992 status of the 109 enterprises that had been regarded as state farms was as follows:

Destroyed by war or closed, but not yet divested	28 units
Being sold or given to private operators	24
Being distributed to families or small producers	21
Being operated or sold as joint ventures	11
Found actually not to be a farm operation	10
Still operated as a state enterprise or agro-service	9
In early stages of being tendered or negotiated	6
No information	10

Although there are some questions on how exact these figures are, they represent the best estimate at the time. These numbers add up to more than 109 farms, because some were being divided up in more than one way. Apparently, few of the transfers were final by 1992, as many steps were entailed, bureaucratic delays common, and governmental jurisdictions overlapping.

In 1992, an LTC-led field team investigated state farm divestiture more deeply by developing case studies of three situations. The MOA took interest in and cooperated with the case-study exercise, as the GRM Council of Ministers itself was becoming concerned that it had little understanding of the divestitures (Myers, West and Eliseu 1993).

The case studies revealed that state farm divestitures were often being handled in confused and sometimes concealed manners. Some former owners, particularly Portuguese, would be told that they could have occupancy again, only to find later that a well placed private operator had negotiated their land out from under them. Smallholders were often excluded from consideration as potential owners. When government subsidies or credit stopped, some managers and staff sold off or took state farm assets.

By 1992 a number of Mozambican leaders and officials had become concerned that the divestiture process was not being handled in a more orderly, open fashion. A national land tenure conference, held before the LTC studies had been completed, called to public attention and discussion the land tenure issues. The LTC studies helped to document these imperfections. These studies were presented to government officials at a seminar established by LTC. Among other initiatives, an *Ad Hoc* Land Commission was established in the MOA to try to establish better approaches. LTC research found that some officials with vested interests were at that time seeking to keep the Commission weak and in other ways to sidetrack reform-minded individuals.

The World Bank has sought to track divestitures for all state enterprises. In a 1993 draft agricultural sector review (World Bank 1993), the Bank called attention to continued confusion, delays, and lack of transparency despite establishment of a legal framework for privatization of state-owned enterprises and delegation of specific responsibilities to the Ministries of Finance and Agriculture as well as to provincial governments. It stated that only about 250 of the 500 Mozambican state enterprises had been privatized at that time, and that some 62 state farms and enterprises (out of 109) were still pending. Dissolution of only one of the six largest agro-enterprises was at advanced stages. The World Bank also noted the serious financial problems of the remaining state enterprises, their capital depletion, and their needs for rehabilitation if they were to be transformed into productive private enterprises. The Bank review highlighted several other needs if benefits of the privatization were to be optimal. Some of these other needs included more skilled agro managers and technicians in outlying places, private marketing and input-supply networks, means for smallholders to articulate and defend their land rights, and appropriate credit and savings institutions.

By 1993 it was apparent to donors, analysts and some leaders that preoccupation with state farm divestiture in isolation would not be as productive as improving the broader set of legal and procedural ingredients for equitable land access and security and sustainable land resource use in the new market economy.

In 1993-1994 USAID, via the LTC, initiated research on questions of land access in the post-war period. Part of the research focused on conflict resolution.

In May 1994 the LTC, MOA, and the University Eduardo Mondlane (UEM) held a second land conference to present findings and to point the way toward specific policy steps. The press took interest in the conference. Nearly 250 participants from national, provincial, and local levels were there. Prior to and after the conference, the LTC had considerable informal communication with donor agencies, nongovernmental organizations (NGOs), and concerned leaders about the research findings and their action applications. A conference briefing book of papers was presented to delegates, and the proceedings were later written up and distributed.

During late 1994, land policy developments were put on hold pending outcome of the Mozambican election and formation of the new leadership's agenda. But by early 1995, when this evaluation was conducted, new proposals for action were stirring. Land issues seemed high-priority in the minds of politicians, rural spokespersons, and business leaders.

Exactly which group in GRM is the best starting point for improvements in agricultural land policies and laws is not clear. USAID, through the Land Tenure Center, has sought to work with and through the *Ad Hoc* Land Commission, which is based in the Ministry of Agriculture but has representation from several ministries, as well as through direct contact with key ministers. The Commission is perceived as producing useful studies but lacking the strength needed to induce major improvements in land policies and the conflict resolution processes. Some people would give the Commission more power by making it permanent. Others feel that direct involvement of the most influential ministers and advisors is needed, but these leaders in the new government have not yet emerged and are likely to change periodically. Thinking particularly of land allocation and conflict resolution through traditional processes, it may be that province and district leaders can take some useful steps on their own. The USAID approach regarding land tenure has been to establish several lines of influence and to be prepared to reinforce well intended initiatives. That approach appears to make sense.

Some other donors are interested in the land security problem. The Swedish assistance agency is working in selected districts on improvement and acceleration of land cadastral, registration, and titling procedures. The U.N. Food and Agriculture Organization (FAO) has completed preliminary analysis of changes in land rights and transfer procedures that would be best for small farmers (FAO 1994). Some observers of the land tenure situation have strong disagreement with this land use plan. It has identified four major land situations in Mozambique, has suggested 10 guidelines for land law revisions, and has started to provide the *Ad Hoc* Land Commission and other MOA groups with technical help on land tenure improvement. There is concern that these projects may not link closely enough to policy agendas.

Some proposed land tenure actions like the cadastral and title registration work would entail considerable investment of GRM funds and manpower as well as be quite complicated and take years to complete. Moreover, there seems to be some basic distrust of the central government at local levels. For example, when two evaluation team members accompanied an MOA socio-economic survey team to a village in northern Mozambique, the household heads declined to cooperate because there were rumors that the survey related to GRM plans to send them away to an island off the African coast.

2.3.2 Impact of Land Tenure Reforms

The shortcomings of state farm divestiture processes are part of a much larger problem concerning access within the Mozambican economy. The problems of state farm divestiture have affected only a limited number of Mozambican rural families and communities. But negative effects of the divestiture processes on equity of land access, productivity, trust in government and legal instruments, and ethics go far beyond that. Already some of the same abuses and inadequacies are appearing when private investors seek to acquire agricultural land. They will be further amplified as competition becomes keener for land access throughout the country, including the peri-urban greenbelts and the attractive coastal areas.

The importance of land access and security has been reinforced by information from a USAID-sponsored survey of subsistence-oriented smallholdings in northern Mozambique. This survey was conducted in 1991 in conjunction with university researchers from an MSU and University of Arizona (MOA/MSU/UA Research Team 1992). Household incomes and also calorie consumption were found to be highly correlated with land holdings. Land distribution was very unequal. Many of the households were encountering constraints in access to more land.

A 1993 follow-up survey (MOA/MSU Research Team 1994) showed that only a few of the villagers with the least crop land had been able to improve their positions relative to neighbors with more land. Serious land conflicts between family farmers and large landholders were found; between 1991 and 1993, parcels of some smallholders had been taken away from them and reallocated to large agro-industrial firms. There was evidence also of conflicts between local leaders and government officials about how village land was to be allocated.

In larger panorama, failure to address local agricultural land access problems can have widespread food security implications. Some 85 percent of the 17 million Mozambicans are in non-urban areas. Most do not yet have much schooling or marketable skills. The jobs that they can get on large farms or in the towns are often seasonal or un dependable. Food production on their own holdings may be their main source of subsistence for much of the year.

Looking ahead into the next few years, the potential gains in food production and rural earnings in Mozambique will not come so much from large corporate farms as from progressive small and medium-sized farmers who blend commercialization with careful husbandry practices. To reach these potentials on a sustainable long-term basis, these small and medium-sized farmers will need to focus on resource mobilization using non-traditional avenues of capital and seasonal finance. This will be difficult to do if they do not have secure land rights.

The efforts of USAID and the LTC to assemble, analyze, and discuss solid facts appear to have had some tempering effect on the abuses and some influence on land policy agendas. Two or three key persons whom we met in Maputo and the provinces mentioned information gained from an LTC conference or publication. The USAID files contain clippings that show that the press and high officials have picked up on LTC-generated information and recommendations. The apparent effort to sidetrack some officials who have been identified with the LTC-proposed reforms may, in itself, say something about impact.

USAID, the LTC, and concerned Mozambicans are at the point of bringing together new and concrete ideas and models about effective strategies for stimulating improvements in land policies and laws. Some people in USAID argue for an outside-pressure approach, placing their efforts within a neutral institution like UEM, generating a large amount of solid research information, disseminating it widely among key people, and making it awkward for officials not to make improvements. Others favor working closely with well-motivated persons within the policy-formation system, providing them with technical reinforcement, and using current issues, near-future action agendas, and/or special task forces as points of departure for stimulating land policy improvements. There is also awareness that Mozambicans want to do things themselves, without excessive donor intervention (MOA 1994).

The LTC seeks to put five or six concrete alternatives on the table for discussion and eventual choice by the Government. The LTC would then be in position to support the

Government in implementing this choice. To this end, LTC has proposed the development of three models on the institutional situations and three models on possible legal situations. By providing a wide range of empirically based information to all parties, LTC feels that rational choices could be made to resolve many of the land tenure issues.

Issues such as land conflict resolution and blending of Portuguese with customary law are complex and volatile. There will need to be good communication between local and national leaders about acceptable options. There will need to be supportive expertise in law, economics, and administration.

2.3.3 Recommendations on Land Tenure Policy

1. Continue to give high priority to fundamental improvements in laws, procedures, and taxation so that these can support equitable and secure access to agricultural land and productive use of that land on a sustainable basis as Mozambique's privatized economy evolves. Do this in a broader context than state farm divestiture *per se*.
2. Focus special attention on resolution of the land access, security, and financial problems of small and medium-sized Mozambican farmers who are commercializing and are likely to become the mainstays of agricultural production and rural employment.
3. Consider help to Mozambican policymakers in preparing to deal with urban and industrial spread into rural land areas, farm-nonfarm land/water use and access conflicts, timber and mining concessions, and dangers of poor management of Mozambique's valuable coastal resources.
4. With the technical assistance providers and lead counterparts, and in communication with other relevant donors, define a strategy for attaining the Mozambican technical and institutional capacities, public and leadership understandings, and policymaker commitment needed for resolving land tenure problems.

2.4 Private Agricultural Sales and Service Network

2.4.1 Description of Agricultural Sales and Service System

The input and equipment supply network existing at the time of Independence for agriculture and related activities was severely affected by the departure of most of the Portuguese. They had not only managed this network but had also been responsible for maintenance and repair within the network. During the colonial period, most maintenance personnel, such as mechanics, foremen, and the like, were Portuguese. After independence the Government set up state-owned firms to continue the operations of these enterprises. Management of these enterprises, however, was hampered immediately by lack of skilled labor, supervisors and managers, and soon thereafter, by the disruption wrought on the economy by lack of foreign exchange and a guerrilla war. Some dealerships of farm and heavy equipment companies were nationalized. Availability of new equipment and even of spare parts from traditional suppliers became more and more limited. Access to farm chemicals also became increasingly limited over time, particularly as foreign exchange shortages became more severe. New equipment coming in was largely from Eastern European sources and was hard to maintain.

Despite the bleak state of the agricultural economy by the mid-1980s, a number of private dealers representing major suppliers of farm equipment remained in business. Their access to foreign exchange was almost non-existent, however, and thus so was their ability to import either equipment or spare parts for their customers. Furthermore, most dealers had no service network outside of the major cities as Maputo and Beira.

When the CIP began in early 1985, the metical (MT) was grossly overvalued. Foreign exchange was virtually unobtainable at the official exchange rate. The official rate of MT42.44 per dollar in December 1984 remained virtually unchanged through 1986 when it ended the year at just under MT40 per dollar, about one-fiftieth of the parallel market rate. Even after corrections to the exchange rate began to be made with year end rates of MT289 in 1987, MT529 in 1988, MT820 in 1989, and MT1038 in 1990, the parallel rate was still substantially higher than the official rate, by 100-120 percent by 1990. By mid-1991, with an official rate of MT1500, the parallel rate had fallen to a premium of 75 percent above the official rate. Thus throughout the first six years of the CIP, there was a very considerable premium on foreign exchange obtainable at the official rate compared with the parallel or black market rate, a difference of 50 times in 1986. As a result, importers were willing to be accommodating in order to obtain access to foreign exchange at the extremely advantageous official rate, plus USAID-provided financing extending out to 120 days for 80 percent of the metical cost of imported items. Initially, USAID put three conditions on the foreign exchange it provided under the private sector CIP: 1) the commodity or equipment imported had to be for agriculture or in support of agriculture, in the case of transport equipment or petroleum products, 2) prospective importers were to set up dealerships including maintenance facilities in the provinces targeted by CIP, and 3) they were to maintain an inventory of spare parts, for which CIP funds would also be available, for any equipment imported under the CIP. The percentage to be imported as spare parts was originally set at 20 percent of the value of the CIP equipment.

2.4.2 Impact of Reforms in Agricultural Sales and Services

In the areas where the CIP operated, the enterprises wanting access to CIP foreign exchange set up fully operational dealerships including workshops and spare parts inventories. These dealerships were observed during field work for this evaluation. These dealers had sold nearly all the equipment brought in under the CIP, except for two Brazilian tractor-pulled rice harvesters at the Massey Ferguson dealer in Chokwe. The dealers visited had the capability of carrying out most or all of the work required to repair tractors and other equipment that they brought in under the CIP, except for the milling work required to rebuild the engines. Very little repair activity was being carried out at the dealers visited in Gaza due to the low level of farm activity as a result of a localized drought situation; but the repair capability of the dealership and the necessary staff were being maintained. Spare parts inventories were low, reflecting both the low level of activity, the high cost of financing inventories, and the ability to bring in spare parts from Maputo on short notice. It was clear that the dealerships visited in Gaza Province would not have existed had it not been for the CIP, and there is every likelihood that they will continue to expand when agricultural and credit conditions warrant such expansion.

A large number of trucks of the types and brands imported under the CIP were also observed during field work transporting people and goods between farm areas and the towns. Thus, the CIP contributed to the ability of low-income farm people to move themselves and their products to markets. Similarly, although medium-sized commercial farms were the major beneficiaries of tractors, significant amounts of land in Nampula and Gaza provinces belonging

to low-income farmers, many of whom are women, were being plowed with tractors from these private farms. This activity indicated that the increased availability, to which the CIP contributed, of tractors on private sector farms leads to some increase in custom service tractor work for small farmers. Spare parts for trucks are readily available for the brands of tractors and trucks brought in under the CIP, although numerous complaints were voiced about their high cost, a result of high import duties. The brands of trucks and tractors brought in under the Program through 1991 were those already found in the country at the time the CIP started: from Japan, Germany, the United Kingdom, and Brazil. Massey Ferguson and Ford tractors and spare parts were brought in from Brazil and the United Kingdom. This strategy of providing foreign exchange for appropriate equipment of a type whose service and repair could be guaranteed in Mozambique maximized the CIP's impact on contributing to rebuilding private agriculture in the rural areas initially targeted. Other nations, even those with traditionally strong commercial ties to Mozambique, have found their CIPs to make less of a contribution than USAID's due to their buy-national clauses and have often been unable to make full use of the funds allocated to their CIPs. In recent years, however, as U.S. manufacturers have become more attuned to the opportunities in Southern Africa and have established service facilities in Mozambique, USAID's CIP now goes almost exclusively to finance U.S. commodities.

In a country with a level of development as low as Mozambique's—the result of years of war and economic dislocation—a CIP tightly limited to U.S. purchases would have had little value for the country. Recently, and clearly as a result of the existence of the CIP, one major U.S. truck manufacturer has set up a dealership and is now making use of CIP funds. In addition, one traditional importer under the CIP (Eulugoslo) is planning to import GMC trucks, and the Volvo dealer is importing U.S.-made White trucks. Significant purchases of fertilizer and seeds have also been made from U.S. sources since the inception of the program. No significant purchases of other farm chemicals were made using the CIP.

The CIP was instrumental in providing private sector dealers with the foreign exchange needed at a critical juncture, before the *Programa de Rehabilitação Econômica* began, and in getting essential inputs, transport and farm equipment out to targeted rural areas. The private dealers who initially made use of the CIP are no longer eligible due to Congressional and Agency directives. Nevertheless, they have continued to maintain the lines brought in under the program and to expand their operations, making use of foreign exchange from other CIPs and from other sources. The CIP is no longer tied to specific regions nor to the agriculture sector. It is now providing new clients with inputs and U.S. equipment with dealer support set up as a result of the existence of the program.

2.4.3 Recommendations on Agricultural Sales and Services

1. Until other import support mechanisms are found, either through donor support, improved access of the private sector to foreign exchange, or otherwise, the CIP should continue in operation.
2. Given the proximity of the secondary exchange rate to the parallel rate, the CIP is less attractive than it initially was, hence there has been an openness to other geographical areas and other sectors. Nevertheless if the demand for CIP funds exceeds the funds available, given agriculture's importance to the country and mission goals of improving farmer incomes, some preference for agriculturally related inputs and equipment is

desirable. Particular attention should be given to CIP support of activities where commodities would be likely to have positive impacts on cash incomes of small farmers.

3. One issue for the policy agenda on the continuation of the CIP should be the reduction of the customs duties on spare parts for trucks and farm-machinery. High duties make keeping equipment in good running order difficult. These issues may be more related to IMF/WB policies than to that of the GRM.

2.5 Access to Foreign Exchange

The policy impact objectives of this reform measure were twofold: 1) to test policy and procedural options to increase access to foreign exchange by private entrepreneurs in the agricultural sector, and 2) to institutionalize market principles as a basis for foreign exchange allocations. Both objectives have been achieved; there is somewhat greater access to foreign exchange, and the exchange rate is more market-related than in the past.

2.5.1 Description of Foreign Exchange Situation

USAID has used several means to accomplish the policy reform goal of improving access to foreign exchange, including: a) a range of policy dialogue measures with the GRM on foreign exchange issues as they related to structural adjustment and management, b) letters of intent focused on specific foreign exchange management reform measures, c) recommendations to the U.S. Executive Directors of the World Bank and IMF, and d) the use of an alternative exchange mechanism through the CIP.

2.5.2 Impact of Foreign Exchange Reforms

Access to foreign exchange is somewhat better and administrative allocation of foreign exchange is reduced. Actions of USAID can be directly associated with GRM foreign exchange policy reform. At the initiation of the PSSP, the GRM had some seven different foreign exchange windows. USAID insisted that CIP transactions be at a legal secondary exchange rate. The GRM adopted the policy, and this was the beginning of important GRM exchange management reforms. Since then, the World Bank and other donors working through the Consultative Group have joined USAID in providing balance of payments support at the secondary exchange rate.

GRM management of foreign exchange has changed significantly over the past decade. Prior to the adoption of the Economic Rehabilitation Program (PRE) in January 1987, the official value of the metical was extraordinarily overvalued. Today, the price of foreign exchange is more market-related.

An objective of the PRE was to give true value to the currency and end the blatant overvaluation whereby the parallel market rate exceeded the official rate by a factor of 50 to 1. The PRE brought the official rate to a more realistic level and eliminated the *de facto* dual exchange rate system. Since 1987, there have been major devaluations; over the eight-year period January 1987 to January 1995, the official exchange rate fell from MT40:US\$1 to around MT6,850:US\$1, with the parallel rate at about MT7,400:US\$1.

After the 1987 PRE, 1991 and 1992 saw two important changes in the GRM foreign exchange allocation system. In October of 1991, the GRM introduced a secondary market for foreign exchange. This allowed foreign currencies to be exchanged at market-related rates at licensed foreign exchange bureaus. In April 1992, the GRM unified exchange rates and donor import support funds and export earnings were merged within the secondary market. Effectively, the secondary market is now the official exchange rate. The objective was to create a larger market whereby foreign currency would be allocated more through a market-related price. The results are apparent; since early 1993, the spread between the official and the parallel markets has declined from about 25 percent to a current level of around 6 to 8 percent (Table 2.2). The difference likely represents transaction cost differences between using the official secondary market and the simpler parallel market.

The price of foreign exchange is Mozambique's most important price. Since October 1991, the price has been more market-related, that is, influenced by demand and supply in the parallel market. In 1994, about US\$300 million, or around 70 percent of Mozambique's free foreign exchange, defined as the difference between the country's imports and predetermined uses such as donor-financed projects and debt service, came from donor balance of payments support. Much of this support is tied assistance. The fact that the assistance is tied has important implications for the country's foreign exchange market and for GRM foreign exchange management. The secondary market of foreign currencies traded outside import support fund exchanges is a thin market; perhaps less than 20 percent of all foreign currency exchange transactions are in the secondary market.

The secondary market is an improvement over previous direct administrative allocation of foreign exchange. Significant distortions of the past have been eliminated and the links between the official secondary and parallel rates are much greater. There is greater access to foreign exchange, yet many private entrepreneurs find the secondary market cumbersome and uncertain. Foreign exchange purchase applications through commercial banks involve long delays and high transaction costs. Not infrequently the Central Bank rejects the applications; one importer claimed 80 percent of all applications are rejected.

The secondary market works for relatively small and routine transactions—like purchase of travelers checks—but it does not provide ready access to foreign exchange for many private importers. Private importers wanting to import goods, especially capital goods, do not have ready access to foreign exchange. They may use other means, including the parallel market, to access foreign exchange. The magnitude of the parallel market is unknown, but some observers estimate that transaction volume ranged around US\$60 million per month in 1994.

For many importers, inability to access foreign exchange is directly related to inability to access credit. Mozambique's financial system is in its infancy, and, for the private sector, commercial credit is difficult to access (see discussion in section 6).

**Table 2.2 Exchange Rate between the Metical and the U.S. Dollar,
December 1992 through November 1994,
Secondary Market, Parallel Market and Differential**

Month and Year	Secondary Rate	Parallel Rate	Difference
December 1992	2,948	3,350	13.6
January 1993	2,960	3,450	16.5
February	2,973	3,600	21.1
March	3,000	3,750	25.0
April	3,038	3,800	25.1
May	3,110	3,950	27.0
June	3,400	4,050	19.1
July	3,692	4,500	21.9
August	4,109	5,000	21.7
September	4,611	5,100	10.6
October	5,009	5,300	5.8
November	5,221	5,700	9.2
December	5,370	5,800	8.0
January 1994	5,437	6,000	10.4
February	5,509	6,350	15.3
March	5,615	6,640	18.3
April	5,723	6,575	14.9
May	5,786	6,588	13.9
June	5,917	6,700	13.2
July	6,138	6,720	9.5
August	6,297	6,730	6.9
September	6,397	6,800	6.3
October	6,507	6,950	6.8
November	6,536	7,000	7.1

Source: Banco de Mozambique

The basic legal and institutional framework is now in place to permit Mozambique's foreign exchange market to function on the basis of market principles. Private entrepreneurs have somewhat greater access to foreign exchange, but access is seriously constrained by foreign exchange market conditions that reflect large donor balance of payments support, and by a rudimentary banking system and poorly operating financial markets. Further revisions of GRM foreign exchange policies are unlikely to enhance foreign exchange accessibility; such revision is not a sufficient condition for providing private entrepreneurs greater access to foreign exchange.

2.5.3 Recommendations on Foreign Exchange Reforms

1. The aim of future policy direction should be to enhance access to foreign exchange and to mobilize domestic financial resources. The growth of exports, especially agricultural exports, offers the greatest long run opportunity to enhance access to foreign exchange.
2. In the shorter run, the opportunities will be in fostering more competition in domestic financial markets, and in breaking down barriers to market access, especially in key export markets.
3. The fostering of more competition in financial markets can be achieved by privatizing state owned banks and by providing a favorable environment for the growth and development of new and existing private financial entities (see section 6.4 for discussion). Breaking down barriers to market access in key export markets such as cashew nuts could notably enhance foreign exchange earnings and the mobilization of financial resources.

2.6 Private Marketing Channels

2.6.1 Description of Private Marketing Channels

The mass exodus at the time of Independence of more than 90 percent of the more than 200,000 Portuguese living in Mozambique, including many rural traders, had as a major casualty the marketing system for agricultural products. Attacks by RENAMO on roads, bridges, electric power lines, and transport and other rural infrastructure completed the disintegration of the country's trade network. This network had previously linked rural areas with the rest of the economy. By the early 1980s, receipts from invisibles (remittances from workers in South Africa, rail service payments from the interior countries and tourism) disappeared as the war took over the countryside. By 1989, marketed production accounted for only 13 percent of market supplies of food grains.

In line with Government policy for all areas of the economy, centralized systems for acquiring agricultural surplus and for controlling the provision of most consumer goods to rural areas were established. Government stores known as *lojas do povo* were established in rural areas to bring in provisions. Those rural traders who had remained were allowed to continue operating since the GRM's distribution system could not adequately serve the entire country. Traders' margins, however, were tightly controlled and the Government held a monopoly over the wholesale trade.

Responsibility for crop marketing, except for cashews and cotton, and provision of rural areas was handed over to AGRICOM in 1981 under the Ministry of Internal Commerce. Separate Government secretariats were established for cashews and cotton. The terms of trade were turned against agriculture through government policy. Agricultural product prices were fixed in nominal terms for years at a time. In face of massive inflation and unavailability of consumer goods in rural areas at any price, money ceased to act as a stimulus for farmers. Production on state farms plummeted and rural commerce was increasingly demonetized and replaced by barter. As the crop marketing system collapsed, rural families turned to subsistence production to survive. The forced resettlement in 1982 of most of the rural population in villages also reduced marketed production. By 1986 marketed production had fallen to half its 1981 level.

The limitations of a centrally planned economy showed up first in FRELIMO's difficulties with running many of the small businesses it had taken over. By 1980 the Government began returning many small shops and restaurants to private business. At the same time, however, the *Novo Sistema de Abastecimento* (NSA) was being set up by the Government in Maputo (1981), and later in Beira (1986) to ensure a reliable minimum ration of basic food stuffs to all families at fixed and increasingly subsidized prices.

2.6.2 Impact on Reforms in Marketing Channels

The impact of the PSSP on private marketing channels occurred in the urban areas of Maputo and Beira and their related *zonas verdes* (greenbelts), rural markets, and more recently, in the marketing of cashews.

In the urban areas of Maputo and Beira, the principal barrier to private marketing of agricultural products was the NSA. The NSA began to break down in the mid-1980s, unable to accommodate the increasing numbers of internal refugees, known as *deslocados*, and other migrants coming into urban areas. New arrivals found it difficult to obtain ration cards to get into the system. Many of these people had fled their places of residence with only the clothes on their back and with no documents in their pockets. Supplies were also unavailable within the NSA itself to provide for the needs of all those who had ration cards, let alone all those who were eligible but had not obtained cards. With the exception of cabbage, the central vegetable markets were devoid of vegetables. The low fixed price for other vegetables meant that traders did not sell them, or if they did, it was under the table. The PSSP CIP and food aid from the United States and other donors profoundly affected these markets from 1985 on.

Liberalization of vegetable prices, part of the first set of liberalization measures taken, was the direct result of an agreement by the Government as the pre-condition for starting the original CIP in 1985. In the time it takes farmers in the *zonas verdes* around Maputo and other cities to grow a crop of vegetables (two or three months), markets were full of vegetables at whatever prices they commanded that day.

Illegal informal markets in grain and other foodstuffs, called *dumbanengues* ("trust your feet"), sprang up in vacant lots and took over an increasing proportion of trade in basic grains and other food stuffs. Traders in the *dumbanengues* would run for it at the first sign of the authorities. As time went on, ever greater proportions of the food grain supply, mostly obtained by leakages of emergency or program food aid from official channels, found their way into the unofficial distribution channels of the *dumbanengues* and *lojas*. It is estimated that as much as

50 percent of these food grains came from NSA in 1991. The prices for these food grains were higher than prices set for NSA distribution. By 1992, it is estimated that the price was as much as 45 percent higher. Official tolerance grew into acceptance of the functions fulfilled by these markets, particularly after the inception of the PRE. By 1993, only 8 percent of the yellow maize grain and 3 percent of the yellow maize flour was purchased by Maputo residents from the NSA between October 1991 and May 1992. Most maize and maize flour was purchased in informal markets. In 1993, no maize from U.S. program food aid was sold through NSA, with private trading taking over 86 percent of the Title III food.

The way food aid provided by the United States and other donors has been handled has contributed to the development of private trading in grain. Diversion of emergency food aid and some resale by recipients constituted one source of leakage into private marketing channels. Significant contributions also came from diversions from the state milling and distribution system. State-owned milling and wholesaling enterprises were the sole recipients of program food aid until 1990. When these public firms failed to make a major part of the counterpart local currency payments they owed, the decision was made by donors to allocate part of the maize to private millers. The proportion of program food aid handled by private mills rose from 20 percent in 1991 to about 80 percent in 1992. In subsequent years, all commercial food aid was allocated to the private sector as a result of unpaid local currency accounts owed by state-owned milling and distribution enterprises.

Studies carried out by the PSS/TA component of the PSSP project have established the following conclusions concerning maize marketing:

- 1) There is a market, particularly among low-income consumers, for yellow maize and yellow maize flour at some discount from the price of white maize;
- 2) Yellow maize and white maize are relatively close substitutes, and, therefore yellow maize availability does affect purchases and prices of white maize produced locally;
- 3) Particularly in the southern provinces of the country which traditionally supply the Maputo market, prices in provincial markets are related to those in Maputo and therefore are affected by food aid and other imports; and
- 4) Price transmission from northern cities like Nampula to hinterland areas producing maize is weaker than in the South, and connection of this area with southern consumer markets (Maputo and Beira) awaits improvements in the land and coastal sea transport links.

The activity of the PSSP to liberalize private marketing channels also affected the *Zonas Verdes*. The greenbelts have existed for many years around major cities such as Maputo, Beira, and Nampula. Until prices were liberalized in 1985, however, trade was basically limited to small amounts grown for the black market. Even smaller urban centers like Xai-Xai and Nampula now have their greenbelts supplying vegetables and other products from producers in peri-urban areas as far as 15 kilometers from the urban centers. Major cities like Maputo are supplied from greenbelts and from other producers as far away as Chokwe and in some cases from South Africa. Many of the farmers and nearly all of the sellers in the markets are women, particularly in the southern part of the country (see section 2.8).

Rural markets have also been affected by PSSP's efforts to create and expand private marketing channels. The role of AGRICOM, which reverted to its original name of *Instituto de Cereales de Moçambique* (ICM) in 1994, has declined, traditional participants are regaining their past importance and new players are finding niches in agricultural product marketing. AGRICOM has been increasingly limited in the amount it can purchase because of budgetary restrictions, pan-territorial pricing, and a lack of flexibility in responding to rapidly changing market conditions with appropriate, pan-temporal pricing. It nonetheless remains a presence affecting other participants in the agricultural product market. For example, in 1993 the GRM announced a post-harvest price of US\$120 per ton for white maize although it did not have resources for the State Enterprise for Agricultural Marketing (AGRICOM) to purchase any significant proportion of the crop. This posture by the Government interfered with purchases by the World Food Program, which did have resources to buy at a price of US\$90. AGRICOM/ICM continues to control a major part of the storage located in producing areas, although this capacity is unused most of the time. The Government claims that the mandate for ICM has now changed and that it is now responsible only for security stocks.

Traders and *lojistas* (retailers) are again active in rural areas, purchasing and then retailing basic agricultural products (white maize, beans). In some areas such as Nampula their pricing has tended to stick around the floor prices set by the GRM until recently. Authorities in some of the provinces are still perceived by traders as controlling retailing margins as was done in the past. There was also the perception of a trade-off between the amount and price of yellow maize available in the market and the amounts and prices at which they and consumers were willing to purchase white maize.

Ambulantes (itinerate traders) constitute another element of growing importance in the rural marketing scene. Buying the relatively small amount of products they can afford on their slender budgets and can transport, they often offer better prices than established *lojistas* and are an important factor in reducing monopsony power of local traders. Though individually they only buy small amounts, collectively, because of their numbers, they offer prices that can affect the market price. Licensing and occasional harassment by local authorities limit the number of entrants to this activity. Availability of financing appears to be a limiting factor for *ambulantes* to a greater extent than for *lojistas* or wholesalers, although these too have their own financial problems. Sales by *ambulantes* are largely in open air markets that have sprung up in nearly all major villages; some have even been established around provincial capitals with the support of provincial authorities.

Some of the larger trading companies are again purchasing significant quantities of white maize and other products for storage, while awaiting price rises which usually, but not always, occur in the months after the harvest glut has been absorbed. These purchases are made possible by the general liberalization of prices for agricultural products. Producing areas in the central part of the country are supplying part of the requirements of Maputo and Beira. Even small shipments from the north (through Nacala) have been reported, although these are limited due to high freight charges.

With a greater awareness of the need to expand export earnings, PSSP has focused more on establishment of private marketing channels for cashew. Cashews are a small farmer crop which has traditionally been Mozambique's most important export crop. The total number of trees has never been accurately counted, but it is thought to be between 30 and 50 million; half of them are located in Nampula Province. Trees begin producing about 5 years after planting

and production peaks when trees are between 10 and 20 years of age. Most trees in Mozambique are 40 to 50 years old, thus well past their prime, and have rarely or never been pruned. Pesticides and fungicides are seldom used. Trees are usually widely spaced (15 x 15m) to allow intercropping of annual food and cash crops; yields are low and generally do not exceed 250 kilograms per hectare.

Cashew production peaked at 216,000 mt in 1972, falling to a mere 24,000 mt by 1992, with production in India and Brazil, both of which exceeded 150,000 mt, replacing Mozambique as the world's major producers. The disruption following Independence of processing and marketing led to a dramatic decline in the volume of cashew exports. Exports declined from an average of 17,800 mt for the 1976-1980 period to 4,400 mt between 1983 and 1987.

Cashew prices, unchanged in nominal terms over time, reached such low levels in real terms that farmers stopped working with cashews and concentrated instead on subsistence food production. Farms with cashews would often leave harvesting, the only crop activity still carried out, to children or abandon the crop altogether. Despite major upward adjustments in prices, by 1990 farmer producer prices were still only the equivalent of 12 U.S. cents compared with 45 cents paid to producers in Brazil and 80 cents paid to producers in India. Lack of incentives for farmers to produce cashews was largely responsible for the decline in export earnings, which fell from nearly US\$65 million in 1980 to just over US\$8 million in 1993. That year, cotton replaced cashews as Mozambique's most important agricultural export product.

Moves have been made to liberalize cashew marketing. Special licenses to trade in cashews are no longer required. Geographical monopsonies have been eliminated, allowing farmers to sell to whom and where they want. Although traders are expected to sell some percentage of their purchases to processors based on the FOB export price, exports of raw cashew are now permitted. The *Secretaría de Cajú*, which had regulated all aspects of cashew trade, was abolished in early 1995. Privatization of state-owned processing plants has been slow. Two factories in Angoche, Nampula Province under Entrepoto and Gani Commercial, and another in Xai-Xai, Gaza Province under Anglo-American Corporation, are now under private control. JFS is building a new factory in Geba, Nampula Province. Mozambican processing plants have traditionally been capital-intensive and more highly mechanized than those of major competitors such as India where shelling is done manually rather than mechanically. Rehabilitated and new plants, however, are adopting simpler and more labor-intensive technologies, but rehabilitation has been limited by high cost, in excess of US\$3 million for one plant, and general lack of financing. Processors will now be allowed to export directly and retain their foreign exchange earnings. The 30 percent export tax is being reduced and will be eliminated by the 1997/1998 agricultural year. The price factories are paying wholesalers has risen 90 percent in the last two years. This increased price is being reflected in higher producer prices, increasing incentives to farmers, and rising farm income. There has also been increasing employment as the processing industry is becoming more labor-intensive.

Cyclone Nadia in 1994 decimated cashew plantations around Nampula, one of the main producing areas. In some areas visited by the evaluation team, the team observed more than half the trees uprooted and dead or dying. Programs to rehabilitate cashew production have yet to show any significant impact, and, lacking the incentive of good prices, farmers have not taken to raising production on their own. Recall that trees take five years from planting to the time they reach commercial production. The quality of processing has been so poor in some cases that value added has been negative, and part of the crop may be leaving the country in raw form

outside of official channels. For a time only processed cashews could be exported. Principal markets are the United States, Portugal, and Republic of South Africa. Mozambique is now a relatively minor cashew producer. India and Brazil have replaced Mozambique and Tanzania as major producers. Kenya, Guinea, and Vietnam also produce small volumes.

Donors have funded a number of cashew-related projects to deal with the problems of this potentially important export sector. The African Development Bank has a US\$14 million development project in Nampula Province which, after considerable delay, is now getting into full swing. Originally designed in 1983 to establish state cashew plantations in a sector traditionally dominated by smallholders, the project has been rewritten in 1993 to support small holder production of cashews in conjunction with a broadened scope of other rural development tasks.

The World Bank has an US\$18 million project designed to reverse the decline in cashew production and exports through rehabilitation of infrastructure and services, provision of technical assistance, and policy reforms in pricing and marketing. Project outputs will include rebuilding the MOA's extension service for cashews.

USAID is proposing an emergency 18-month US\$2 million project for Nampula Province to replant cashew trees destroyed by the cyclone and to provide groundnut (peanut) seeds to tide farmers over the five-year period before young cashew trees begin producing. The project will provide farmers with 10 trees per family, logistical and administrative support to the three private companies involved in cashew marketing and processing in the province, and support to the provincial cashew extension service. Extension for the project will be handled by private companies. Expected outputs include an improved policy environment for cashew production, marketing and export, and increased farmer incomes.

FAO has worked with Mozambique on cashews since 1976 and is now proposing a US\$800,000 master-plan for the cashew sector. Initial work has already been completed on this proposal.

2.6.3 Recommendations on Reforms in Marketing Channels

1. USAID should support a quick-action project to rebuild cashew production and raise farm incomes and food security in Nampula Province which was devastated by the 1994 cyclone. Channeling plant provision and extension services through private sector companies active in cashew processing and marketing should expedite project implementation.
2. Although state farm divestiture is largely completed, privatization, or the sell-off of assets of state processing and marketing enterprises including AGRICOM (now ICM), has been slow and is still incomplete. The reason for the existence of these enterprises has been superseded by the resurgence of private sector firms. The privatization of these state enterprises should be a priority matter for policy discussion.
3. USAID, in conjunction with the GRM, should study the issue of trader licensing. Goals should be eliminating unjustified barriers to market entry and encouraging competition.

4. USAID should assist in the study of internal road transport and coastal shipping costs for moving agricultural products from major producing to consumer centers. Ways should be found to reduce these costs.
5. USAID should devote special attention to discussions on policy matters related to those crops like cashews that provide small farmers with cash incomes and, by which raising slack-season cash reserves, can improve family food security. In particular, USAID should encourage removal of impediments to marketing of these crops.
6. USAID should investigate other cash crops suitable for small farmer production. These include crops like tea, sisal, and sugar cane, which were traditionally grown as plantation crops in Mozambique before being abandoned at Independence. These crops are grown as small farmer crops in many countries around the world.
7. Other donors may wish to support small farmer production and marketing of crops not targeted for USAID's assistance.
8. Research on local and national agricultural markets should continue and be expanded to include regional and international markets for products such as maize, that are important to Mozambique's low-income population or that can be produced by small farmers as export crops.

2.7 Petroleum Importation and Marketing

This policy element was added to the Policy Agenda in reflection of the GRM's concern about and the economy's need for petroleum imports to support the agricultural private sector by increasing supply in order to ensure adequate fuel for transportation and agricultural activities. The objective of this policy element is to promote increased and more reliable access to petroleum products at import parity prices.

2.7.1 Description of Petroleum Sector

Mozambique imports all of its petroleum fuels refined. A refinery was built in 1961 at Maputo, but it has not operated for many years. With the disintegration of the Soviet Union, Mozambique lost access to concessionary petroleum product imports. All petroleum products are now imported at commercial prices under loan or grant assistance by the World Bank and bilateral donors. In recent years, the annual petroleum product import bill has been around US\$100 million.

The PSSP was amended in May 1991 to include petroleum importation and marketing under the CIP as a response to the domestic fuel crisis resulting from the Persian Gulf War and the loss of concessional contracts with the Soviet Union. The CIP has financed some US\$16 million dollars of petroleum product imports out of a total program of US\$64 million. The policy impact objective of this reform measure is to promote increased and more reliable access to selected petroleum products at import parity prices based on the secondary market exchange rate.

The May 15, 1991 USAID-GRM letter of intent that guided the PSSP amendment focused on four policy actions: 1) establishment and maintenance of the price of gasoline at or above

import parity at the secondary market exchange rate, 2) adjustment of the price of gasoline at least on a quarterly basis, 3) adjustment of the domestic price of diesel fuel, and 4) completion of an analysis leading to specific recommendations on deregulation of the importation and pricing of avgas.

The September 18, 1992 letter of intent added the following policy actions: 1) allow private imports of avgas, and, by March 1993, amend relevant laws and regulations to permit its free importation and distribution, 2) continue revising, through a system of indexing all petroleum product prices, in order to adjust prices to take into account inflation and exchange rate fluctuation, and 3) develop proposals for moving toward a free market in the domestic distribution of diesel fuel and gasoline.

USAID files contain copies of recent communications between the U.S. Ambassador and the Minister of Industry and Energy. These letters of April and May 1994 request: 1) separation of Petromoc's import and distribution functions, with both functions transferring to private control, 2) reduction of rigidities in the petroleum markets by putting Petromoc and private companies on an equal tax collection basis, and 3) revocation within a reasonable time frame of Petromoc's legal monopoly on the import of all fuels (except avgas).

2.7.2 Impact of Petroleum Sector Reforms

Petroleum sector reform measures implemented to date by the GRM are: 1) importation of gasoline and diesel at the secondary exchange rate, 2) pricing of gasoline and diesel at or above the import parity price, 3) periodic adjustment of the price of gasoline and diesel, 4) complete deregulation of the importation and pricing of avgas and LPG, and 5) movement toward a more free market in the domestic distribution of diesel fuel and gasoline. In essence, the GRM has fulfilled all requested policy actions except the Ambassador's requests of April and May 1994. These are quite sticky matters for the GRM.

The linkage and association between stated policy objectives and observable policy reforms is the most direct of the six PSSP policy components. Although USAID is one actor among many in calling for petroleum import and marketing reforms (USAID has a representative on the Petroleum Import Work Group), there is strong and compelling evidence of a direct policy objective/policy impact relationship. Program files and team interviews indicate USAID has meticulously monitored petroleum sector developments and has frequently and openly communicated concerns to the GRM and other donors.

USAID is commended for true excellence in initiating and implementing policy dialogue with the GRM and coordination with other donors on policy objectives and strategies. Significant policy reform has been accomplished with modest resource outlays.

USAID has been successful in bringing about notable reform of Mozambique's petroleum sector. The reform task is not complete, but USAID has a clear vision of the future policy reform agenda. This reform agenda includes revoking Petromoc's legal monopoly position in importation of fuels (except avgas as noted above), separating Petromoc's import and distribution functions, and changing the policy environment so that all distributors are on an equal footing with respect to tax and financing costs. If there is to be a petroleum import component in a future program, the team recommends that USAID continue to pursue the current agenda.

2.7.3 Recommendations on Petroleum Sector

1. A petroleum import component should be a part of a future program only if such allocations do not significantly reduce the availability of funds for capital equipment in direct support of the private agricultural sector.
2. USAID should use financial resources to pay for Mozambique's current petroleum consumption only if such support leads to the achievement of significant and yet unattained petroleum policy goals.
3. It is also recommended that USAID establish a monitoring program to show policymakers and consumers the benefits of the petroleum measures. Mozambique's petroleum sector has a high profile in the public eye. The effects of reform will be highly visible and can serve as a conspicuous demonstration of the potential benefits of economic liberalization in other sectors of the economy.
4. To avoid riots sparked by infrequent but large nominal increases in the price of petroleum products and problems of cost creep faced by wholesalers and retailers, all petroleum prices should be set in dollar terms and adjusted automatically whenever the official (secondary market) rate changes. The dollar prices thus established should be reviewed quarterly and adjusted in dollar terms to reflect changes in dollar and local currency costs at wholesale and retail levels.

2.8 Gender Impact of the Policy Agenda

Gender-related issues were only briefly discussed in the 1991 evaluation because of lack of information. Work by technical assistance under PSS/TA has filled in some of this information gap. Work done by MSU in setting up the price survey (SIMA) has gender disaggregated information on suppliers and traders. The Nampula regional study (MOA/MSU/UA January 1992) also included gender disaggregated information on heads of household and income.

Work by Maizeell (Sahn and del Ninno 1994) provide more data on women from their analysis of poverty and income distribution in Maputo. This study documents the poor status women have in the country. In looking at schooling, for example, one sees that between 7-15 years old, the number of males and females in school is about equal. In the 10-21 year old cohort, there is a shift toward males. At the critical employment age of 22-45 years old, about 24 percent of the women have had no schooling as contrasted to 4 percent of the men. The unemployment rate of this age cohort is twice as high for women as men. Of those employed, 60 percent of the women say they are self-employed, but only 20 percent of the men claim self-employment. Many of these self-employed women work in the informal open-air markets, the *dumbanengues*.

These women who work in the *dumbanengues* were examined in a recent study of vegetable marketing in the peri-urban area of Maputo (Little 1992). This study demonstrates some of the impact the policy changes achieved by the PSSP have had on this particular segment of the agricultural private sector. Before the economic reforms supported by programs such as PSSP were in place, petty trading was illegal and resulted in a certain level of risk. The term *dumbanengues*, for example, is a phrase in the local language that refers to how fast one can run

to escape local authorities. The policy reforms have removed much of that risk. Growth in small-scale commerce has grown faster than any other sub-sector in the Maputo region since the reforms. About 95 percent of the petty traders are women. Freeing the market affected these women in several ways. The number of women who could get into petty trading increased sharply. Before 1989 there was very little *dumbanengues* activity. Now these petty traders represent the largest number of traders in the peri-urban area of Maputo. Petty traders thus represent economic opportunities that did not exist before the reforms. Although most of these women remain small scale petty traders, there are a few cases where some women have been able to accumulate enough capital to move into wholesaling and even transportation of goods.

On a smaller scale, the evaluation interviewed a small group of women growing crops on drained swamps along the Limpopo river in the peri-urban region of Xai-Xai. Before the reforms, the women were restricted regarding what they could sell and to whom they could sell their goods. Now they are able to provide income for their families by growing and selling vegetables, thatch for construction, and maize. Although they complain of the high cost of transportation to haul their goods and low prices in the market, they are still better off now than during the time before 1987 when trade was highly restricted.

Both of these groups of women are in the southern part of the country where female heads of households are a larger segment of the society than elsewhere. In the north and central regions, female heads of households are rarer. MSU estimated that about 10 percent of the households in their survey zone in Nampula are headed by women. A recent study (Pehrsson 1993) estimates that nationwide about 30 percent of households are headed by women. These women who head households, are benefiting from the more liberal market-based policies supported by PSSP as they often earn their family income from agriculture and self-employment in trading.

The growing availability of small hammer mills in peri-urban and even rural areas has alleviated some of the drudgery of hand-pounding maize, a task reserved exclusively for women and girls. MSU will be investigating time gains for women from hammer milling rather than hand-pounding maize. USAID provided support for this change by supporting the Small Millers Association and providing it with allotments of Title III yellow maize.

2.9 Food Aid and the Policy Agenda

U.S. program food aid was linked to a policy agenda similar to that of the PSSP. This agenda was supported for one year by a letter of intent dated September 18, 1992. Policies covered in this letter of intent were: completion of agricultural marketing liberalization including both pricing and non-pricing reforms; completion of divestiture of state farms in favor of private operators including family sector farmers; continuation of land issues by the LTC and extension of the mandate of the Land Commission; support for increasing the private sector role in input supply and services with the privatization of agriculture-related state enterprises; continuation of reforms in the importation, pricing, and marketing of petroleum products, moving toward eventual deregulation of the market for these products; and specific reforms in the use of program food aid. Subsequently, with the arrival of a serious drought and the signing of the General Peace Accord which required resettling more than a 2 million refugees and almost twice as many internal refugees (*deslocados*), direct policy dialogue was dropped as a condition of aid (see section 3.1), although presumably undertakings agreed to under the September 1992 letter of intent remained in force.

2.9.1 Description of Food Aid

The total value of food aid has ranged from \$52 million in 1991 up to nearly \$133 million in the drought year of 1992. It fell to US\$64 million in 1993 (Table 2.3). For these years, the value of U.S. food aid exceeded USAID's operating year budgets. More recently (1994 and 1995), however, U.S. food aid has fallen to under \$40 million a year. These amounts include section 416 contributions granted to WFP for final distribution. Between 1992 and 1994, the United States brought in between 50 and 70 percent of the yellow maize imported in those years. Thus, since the early 1990s, food aid provided by the United States made a very significant contribution to food available in the country; the GRM is aware of the importance of the U.S. contribution to the food security of the country.

**Table 2.3 Value of U.S. Food Aid,
1991-1995
(in US\$000s)**

Title and Section	1991	1992	1993	1994	1995
Title II	21,840	11,281	23,206	16,163	20,413
Title III	18,940	49,300	14,992	15,000	9,000*
Section 416 (WFP)	11,470	72,200	25,893	1,900	2,900
Total Food Aid	52,250	132,781	64,099	33,063	32,313

* Program is not yet final.

2.9.2 Impact of the Policy Agenda on Food Aid

In line with general U.S. policy of supporting the GRM's attempts to move from a centrally planned to a market-oriented economy and to more narrowly focus direct Government action on economic groups which the private sector cannot adequately serve, U.S. food aid has been increasingly provided through private channels. Initially, all Title III food aid was allocated to parastatal mills and marketing outlets. Over time, an ever larger proportion of allocations has been consigned to private enterprises such as mills and warehouses for onward distribution to small mills and retailers. At present, all Title III food aid goes to private consignees. Small hammer mills produce a 99 percent whole yellow maize meal which studies have shown to be self-targeting, at appropriate prices, to low income consumers. Large state and privately operated mills generally produce a finer (85 percent extraction) meal favored by higher income consumers. WFP and PVOs, through Title II monetization, have been buying food locally to encourage and provide a market for local production.

One area of policy related to food aid remains a problem and that is the release price which first consignees pay for their allocations. Despite some movement toward import parity prices in 1992 and 1993, release prices to initial recipients are still well below import parity prices. Savings are not passed on to subsequent intermediaries and final consumers but instead are appropriated as high rents by the initial recipient. Both USAID and other donors continue

to bring this matter to the attention of the GRM. Low prices also act as a disincentive to commercial imports and could also reduce incentives to producers if and when increased cost efficiencies of coastal shipping rates allow production in the north to be transferred at a competitive price to Maputo and Beira.

Emergency aid is now being channeled through PVOs (World Vision and the Adventist Development and Relief Agency, ADRA) rather than through Government channels such as the Department for the Prevention and Control of Natural Calamities (DPCCN). This change has resulted in more efficient distribution. It also has resulted in a better targeting of at-risk populations. It should be noted that WFP has also increased the proportion of its food aid handled by PVOs, while DPCCN distribution has fallen from 70 percent in the previous year to 12 percent in 1994/1995 and is limited to those areas where PVOs are not operating yet. USAID has also strongly encouraged World Vision and ADRA to contract with the private sector for all transport. As a result of USAID encouragement, WFP has also significantly increased its contracting through the private sector. In the same vein, USAID is encouraging the Government to privatize the parastatal truck fleet. A study financed by USAID developed an action plan to achieve this aim. The plan is now being studied by the Government and other donors.

Technical assistance for food aid has been provided by the PSS/TA component of the PSSP program. The goals of the PSSP and the Title III programs are so closely intertwined that provision of technical assistance by one program to another has not constituted a problem. This technical assistance and its analyses have helped guide USAID and the GRM in making appropriate improvements in the mechanisms under which food aid is handled.

Thus, despite the limited policy link, the volume and modalities of U.S. food aid have contributed to the general policy dialogue between the United States and the GRM. Furthermore, although it was never enunciated specifically in a letter of intent, the policy goal USAID had in mind for food aid in 1992, to strengthen open and competitive private markets through broader private sector participation, remained intact in the subsequent years of the program. Much progress has been made in the policy area. Agricultural prices have been almost completely liberalized. Licensing and trade restrictions have been reduced. Inter-provincial restrictions on shipment of agricultural products have been completely eliminated officially and largely eliminated in fact. Administered marketing margins have been eliminated, except for setting release prices for food aid maize. In part, achievement of this unstated policy goal for food aid has been attributable to the important volumes of food aid brought in by USAID and to the way the food aid has been handled.

2.9.3 Recommendations on Food Aid

1. USAID and other donors should jointly insist on the rapid adjustment of release prices for program food aid toward import parity pricing.
2. The establishment of warehousing agents as consignees to allow small private millers access to program food aid was a good and reasonable decision. USAID should continue to expand the number of firms having access to food aid shipments, and in particular should encourage the establishment and expansion of small millers whose products target low-income consumers.

3. Given that it now provides no more than 3 to 5 percent of household food consumption, NSA has ceased to have any major role in food supply. USAID and other donors should encourage the GRM to fully implement the dissolution of this system, which is no longer fulfilling the functions it was set up to provide.
4. Government institutions such as DPCCN should concentrate on identification and delineation of emergency situations and should collaborate in planning for the food aid needed to address these needs. USAID and other donors should encourage moves already taken by the Government in this direction.
5. Emergency distribution should be handled by PVOs, such as World Vision and ADRA. USAID should continue to channel its food aid through PVOs. In its discussions with the GRM, USAID should encourage channeling of food aid from whatever source through PVOs, which are generally effective in moving it to families and other target groups most in need of such assistance.

3. USAID ROLE: POLICY DIALOGUE, INTEGRATION, MONITORING, AND PROGRAM MANAGEMENT

For the Private Sector Support Program to be successful, the USAID/Mozambique Mission has a number of important tasks to carry out. Among these tasks are engaging in a policy dialogue with the GRM, with the private sector, and with other donors on the achievement of the Policy Reform Agenda; integrating policy agendas both within other USAID programs and with other major donors; monitoring program activities; and carrying out general program management activities.

3.1 Policy Dialogue

Policy dialogue for the PSSP was carried out at two levels—formal and informal. At the formal level the process has been that the Mission, with the GRM, developed yearly policy objectives for each element of the Policy Agenda. A working group of concerned donors often helped to unify and coordinate these policy objectives among themselves. The formal policy dialogue process was culminated by a Letter of Intent prepared and negotiated with the GRM. When this normally annual process was completed, a reporting cable was sent to USAID/Washington.

Five Letters of Intent were signed by the GRM, the first in August 1989 and the last in September 1992. These letters were related to yearly policy objectives for the four cropping season periods 1989/1990 through 1992/1993. This formal policy dialogue process ended when the Mission was required to shift the efforts of its personnel resources to respond to the emergency drought of 1991/1992 (see section 3.4 below).

Informal dialogue took place in a number of arenas including workshops, papers, studies, and working groups. Both the University of Wisconsin LTC and MSU held a number of workshops and conferences related to work they were doing in support of the Policy Agenda. In addition, a petroleum working group was active in looking at questions related to the petroleum element of the Agenda. In addition to these groupings, a number of individual contacts and meetings were held by Mission staff to refine, inform and advance the policy dialogue.

Even though in terms of the life of the program the formal policy dialogue was cut short prematurely, the dialogue itself has to be considered successful for several reasons. First, by the time of the 1991/1992 drought, most of the items on the Policy Agenda had been achieved in substance. Secondly, the Policy Agenda of PSSP was part of a larger movement for policy change supported not only by USAID but by other major donors and, most importantly, by significant elements in the GRM. Momentum for policy change continued even after the formal dialogue had ended. Thirdly, the informal dialogue process was robust and well-received. This made up for any lack of formal process. Finally, the drought and subsequent transition caused by the Peace Accord overwhelmed everyone, not just USAID. Under these unsettled conditions little or no real formal policy dialogue could take place.

3.2 Integration of Policy Agendas

The Policy Agenda of PSSP is one of a number of policy agendas being negotiated with the GRM. Within USAID there are three agendas for agriculture—PSSP, PL 480 Title III, and the Consultative Group process. In addition, the World Bank and the IMF have their Policy Framework Papers (PFP) that represent a list of policy reforms in all sectors of the economy. It is important that there be some form of integration of these policy agendas to maximize the impact of efforts in the policy area and to avoid conflicting or contradictory approaches to the basic policy needs of the country.

Within USAID there is close coordination of the policy agendas in the agricultural sector. PSSP and Title III are both managed by the same people, and continual contact between the Program and Agricultural Offices ensures a close integration of the two policy agendas.

Much the same is true as far as the agricultural sector is concerned in the PFPs. Here again, there is close personal contact between the two organizations. The World Bank is using both the LTC and the MSU team in doing basic studies for its policy development work. Discussion with the Bank on the coming agricultural sector review indicated a similar approach and viewpoint on principal issues affecting the sector.

3.3 Monitoring

USAID has three levels of monitoring for the PSSP program. The first two deal with the CIP, and the third deals with policy.

The CIP uses a computer to track purchase and delivery of commodities. The records kept are detailed and can be looked at in a variety of ways. The CIP office also keeps detailed records of contacts and prospective users of the CIP. Local currency generated by the CIP is monitored by the Controller's Office of USAID/Mozambique. The GRM's Ministry of Finance is technically responsible for monitoring these funds, as they belong to the GRM. In 1988, after the CIP had started, the Mission found that the Ministry did not have the capability to handle this task at a level required by USAID regulations. Discussion with other donors who have programs similar to the CIP confirmed the inability of the Ministry to monitor the local currency account adequately. This limited capability of the Ministry makes the option of using such instruments as a sector cash transfer problematic.

In terms of quality, the local currency monitoring done by the Controller's Office is outstanding and very useful. For example, there have been substantial delays by the Government in crediting overdue local currency payments into the special account set up to receive them. The monthly reports from the Controller's Office have provided the Mission current data to use in encouraging the GRM to make these deposits. The major problem the Controller's Office has is getting accurate information from the Central Bank and the Ministry of Finance. Technical assistance in program monitoring was offered to the Ministry of Finance for the purpose of up-grading its capability in this area, but the assistance was rejected by the previous Minister of Finance. Recent personnel changes at the Ministry of Finance have made it more difficult to get some of this information. The evaluation team was unable, for example, to meet with the appropriate person at the Ministry of Finance, despite repeated attempts to arrange such a meeting. The competent person the controller had been working with at the Ministry has gone on extended study leave and has not been adequately replaced.

Monitoring of the Policy Agenda is the responsibility of the Program Office. Monitoring of the PSS/TA was moved to the Agriculture Office in the summer of 1993 with the arrival of an agricultural officer. Formal monitoring of the Policy Agenda ended in September 1992 (see section 3.1). Nevertheless, informal monitoring activity by the Program Office continues to the present. For example, when a move was made to reestablish fixed food prices in 1993 (see section 2.2.1) the Program Office responded quickly to clarify what was taking place and to work to keep the Policy Agenda on course.

3.4 Program Management

The structure of USAID's management of the PSSP has changed during the last three years. Initially, management responsibilities for policy and technical assistance were in the Program Office of the Mission. The CIP component has separate management responsibility under a commodity specialist in the Mission. In the summer of 1992 a direct hire agriculture development officer was added to the Mission staff to expand what had been a Food for Peace Office into broader agricultural and rural development areas. At that time the PSS/TA component of the project was moved to the new Agriculture Office from the Program Office. The Program Office retained responsibility for the policy agenda of PSSP.

As described in section 1 on the background of the PSSP, two events directly affected the course of the project—the 1991/1992 drought emergency and the transition to a democratic government in the country under the General Peace Accord of 1992. Both of these events significantly affected program management of PSSP. When it became evident that the drought was serious and that millions of people would be displaced and put at risk, USAID acted to provide assistance. Food aid, for example, increased from a previous average of 71,000 mt to 241,793 mt. Staff at the Mission was extremely limited and much of the core project activity had to be put aside to deal with the emergency.

Even before the drought emergency was over, the General Peace Accord was signed and the Mission veered into yet another direction as USAID and the GRM re-tooled their programs to respond to changes in the country's political and economic situations. In this transition, the CIP and the PSS/TA continued within their focused mandates.

The policy component of the PSSP, however, was modified. In cables to USAID/Washington at the time, the Mission indicated that the policy dialogue would focus on maintaining the progress the GRM had made in the policy agenda and would look more toward quick disbursement of dollars and local currency generation for budget support. In short, there would be a pause in pushing new policy agendas or directions. As noted in section 3.1, this hiatus in the formal policy dialogue did not materially affect the outcome of PSSP's overall policy agenda.

Although informal efforts by the various USAID Offices related to the PSSP have been able to maintain momentum on the Policy Agenda, the Mission needs to seriously rethink, as PSSP moves forward, how management of the Program and its Policy Agenda should occur and more formal management responsibilities should be delineated. Responsibilities for the overall management of the project and development of the policy reform agenda should be closely linked, while still involving a cross-section of the Mission. The direction of the Policy Agenda for PSSP recommended by this evaluation (see section 8) supports activities related primarily to the Mission's Strategic Object of increased income. Although these activities include elements

that traditionally fall in several different USAID Offices, all of them affect the agricultural sector and are agriculturally related activities. For this reason the management and direction of PSSP and its Policy Agenda should be done through a cross-sectional task force under the direction of the Head of the Agriculture and Food Resource Office.

3.5 Recommendations

1. The management and direction of PSSP and its Policy Agenda should be done through a cross-sectional task force under the direction of the Agriculture and Food Resource Office.
2. Ministry of Finance fulfillment of agreed-upon payments into local currency accounts has been less than satisfactory and should be discussed with the Government at the highest levels to assure prompt payment. It should be noted that 10 percent is programmed at fixed dates for use by PVOs in their development activities.
3. USAID should renew the offer of technical assistance to the Ministry of Finance for improving monitoring of local currency obligations owed it by CIP importers and owed by the Ministry to the special account.
4. The CIP should be continued in its present form until such time as the banking system is capable of managing and properly accounting for foreign currency funds provided on an *ex post* basis in a way acceptable to USAID. The experience with funds already provided by Switzerland in this way should be followed closely.
5. Delays in processing TA contracts such as the cooperative agreement with LTC could jeopardize the timeliness and effectiveness of the TA provided. Such delays should be avoided.

4. TECHNICAL ASSISTANCE

Since 1991, Private Sector Support/Technical Assistance has emphasized: 1) economic analysis of food and price policy issues; 2) additional survey information concerning small farmer productivity and household food security; 3) expansion and refinement of the nationwide agricultural market information system; 4) documentation and analysis of state farm divestiture and emerging land security issues; 5) collection, translation, and analysis of land and property laws; and 6) workshops to stimulate awareness and informed discussion of price and land policy issues at leadership levels. The work of Cornell University has phased out; MSU and the University of Wisconsin LTC continue to be the mainstays of the PSS/TA work. There is appreciation by both the GRM and the private sector of the importance and relevance of agricultural product price reporting and market and household income studies carried out by MSU. Likewise, there is broad acknowledgement of the role played by technical assistance from the LTC to clarify the modalities and status of state farm divestitures to bring land tenure and land access issues to public attention and frank discussion.

The evaluation team supports continuation of the technical assistance component and the broadening of its coverage to areas of international trade in agricultural commodities important to the country, to maize imports and cashew and other export crops, and to land access and land conflict resolution, particularly as they affect food security in rural areas and national food supply.

4.1 Evolution of PSS/TA since 1991

The Cornell Food and Nutrition Policy Program (CFNPP) has conducted studies and training in a number of African countries under the USAID/Washington Policy Reform and Poverty Project. Between 1990 and 1993, it guided research and provided advice on urban food security problems in Mozambique through three successive buy-in agreements. The work was accomplished in association with the Food Security Department of GRM's Ministry of Commerce and also with the National Planning Commission. The first exercise (1990) was an assessment of the effectiveness of the ration system in protecting food security of poor people in Maputo and Beira. Out of this came assessment fresh ideas about possible use of food stamps and other changes that would not only enhance food security but would also stimulate commodity trade. In the second exercise (1991), Cornell evolved plans with GRM, USAID, and the World Bank for a large survey of 1,800 households in the Maputo area to assess nutritional status and to learn more about food consumption behavior. The third exercise (1991-1993) was for actually conducting, analyzing, and reporting the survey. Seminar discussions of the study results were presented in 1992 and 1993.

Two working papers were provided to USAID in 1994 (Sahn and Desai 1994, and Sahn and Nino 1994). The delay in presenting final reports, more than two years after the start of field work, was a matter of concern to the Mission. Although training and institution building were not the main aims of Cornell's technical assistance, several Mozambicans took part in the survey work and the subsequent data analysis in the United States. Cornell's cooperative agreement terminated with this work and has not been renewed.

There was a Cornell proposal to conduct more research, but USAID apparently wished to move in the direction of technical assistance that is more closely integrated with Ministry

programs, policy formation, and staff development. (For helpful perspective about the overall Cornell undertaking in Africa, see Stryker and Rogers 1992.)

Agricultural economists and other social scientists from MSU have been working since 1990 with the National Directorate of Agricultural Economics of the GRM Ministry of Agriculture under USAID Cooperative Agreements related to food security. The Mozambican work stems from a broader MSU undertaking for USAID/Washington, the Food Security in Africa Project. Until 1992, agricultural economists and anthropologists from the University of Arizona were also involved.

The MSU technical assistance team works in the Agricultural Economics Department (DEA) in the MOA. The technical assistance team is responsible for supervising the Agricultural Marketing Information System (SIMA). The team also maintains offices in Nampula Province in the Provincial Department of Agriculture; much of the initial price and marketing policy research conducted under the MSU cooperative agreement has been focused on Nampula Province. The MSU project leader is Dr. David Tschirley, who is soon to begin one year of full-time residence in Mozambique directing the project. Until now, he has been making four trips a year to Mozambique. Raul Varela, In-Country Director, has direct responsibility for study survey design and analysis, broad dissemination of research findings within Mozambique, and communication with Government officials and international visitors.

Some overseas training has been provided. One MOA/MSU team member is completing M.S. studies at MSU. Another person is planning to begin M.S. studies there in mid-1995. Staff also receives on-the-job training in research skills. Good arrangements have been made for other team members to assume responsibilities and to learn from the experience while their colleagues are abroad.

The aims of this MOA/MSU thrust have been to develop a solid research and market information base for making policy and entrepreneurial decisions and to bring factual and analytical insights to help strengthen Mozambicans' own capacities to collect, analyze, disseminate, and utilize socio-economic information. Specific components have included:

1. Establishment and expansion of a pilot **agricultural market information system (SIMA)**. Data are now collected every week by 50 part-time investigators from 25 markets in 10 provinces. Reports are disseminated via weekly radio and telefax releases. About 400 copies of a more detailed market bulletin, in Portuguese, are distributed each month.
2. A **1991 socio-economic survey in Nampula Province** of 343 smallholders in 15 villages to identify food security and agricultural policy reform needs. This survey has been augmented with a **1993 rapid appraisal in two of the villages** and a **1994-95 follow-up survey**. Both agricultural production and household consumption aspects are included. Important insights about land and market access problems have been gained. Roles of income-generating crops like cotton and cashews have also been examined.
3. A **1992 study of the informal food marketing system in Maputo** and companion work elsewhere that shows the importance of small traders, new markets, and market information in facilitating commodity movements and stimulating price competition. A

survey of small millers in northern Mozambique was being completed at the time of this evaluation.

4. **An analysis of consumer white and yellow maize preferences**, which showed that substitution of yellow for traditionally preferred white maize in production and food aid is feasible.
5. **On-the-job training** of the core Mozambican team in research methodology, market intelligence, computer use, and program management, plus careful data collection and tabulation techniques for the larger cadre of field investigators and market reporters in the provinces. Some of the Mozambicans in the core team are also being afforded short- and long-term study opportunities in the United States.
6. **A working paper series** based on the MOA/MSU studies that is produced by the National Directorate of Agricultural Economics and distributed to key decision makers. Nearly 20 working papers have been produced thus far. The reports are published in Portuguese as well as English.

At the time of this evaluation in early 1995, USAID and MSU were finalizing arrangements for extension of the MOA/MSU food security collaboration. As proposed by MSU, the work would continue at least to August 1997 and would include: a) further strengthening and institutionalizing of the pilot agricultural market information system, probably within the MOA/DEA Statistics Department; b) more research attention and market information on performance of food markets in the cities; c) analysis-based dialogue with GRM and donors on food aid reforms; d) help to the MOA/DEA Statistics Department in improving its annual rural household survey data; e) research in northern Mozambique to learn more about rural non-farm enterprises; and f) a senior long-term advisor from MSU to stimulate a more active and better informed dialogue on food security policies among the various GRM and donor agencies concerned.

The LTC was asked in initially by USAID to deal with state farm divestitures. LTC has had one or more research investigators in Mozambique much of the time since 1991. This LTC presence has been reinforced by technical backstopping, program leadership, and periodic in-country work by an LTC faculty member, Gregory Myers, and some short-term specialists. Some supervision has been provided by the LTC director, until recently John Bruce, who led the pre-1992 LTC work in Mozambique.

The LTC has fixed its institutional base in Mozambique through an established cooperative relationship with the Ministry of Agriculture (especially the *Ad Hoc* Land Commission), the University Eduardo Mondlane, and various key Mozambicans in Maputo and outlying locations. Communicative links have emerged with some journalists, NGOs, and donors other than USAID who have become concerned with land policy issues. Articles based on LTC research have been published in Mozambican periodicals and a book on this research is forthcoming. Copies of the LTC publications are sent with personal cover letters to relevant ministers and other high officials. The LTC project leader has talked with Mozambican leaders individually during his stays in Mozambique.

Several Mozambicans, young agency staff members and recent university graduates, have been involved in the field studies. Two of them, plus an administrative aide and a translator,

are still with the project and are based with the Commission in MOA. Others are in public service elsewhere.

Following John Bruce's 1989-1991 preliminary work on land laws, state divestiture, and tenure security, the LTC research team in 1992 conducted an extensive study of the state farm sector. This study included several on-site visits, even in the midst of war insecurity and travel difficulties. This work resulted in three case studies and about 20 reports and presentations on state farm divestiture in Mozambique. The LTC studies brought to light shortcomings in the way that state farm divestiture was being handled, and it showed underlying problems in land tenure arrangements that need attention if privatization is to proceed smoothly and with due respect for the rights of smallholders. Policy recommendations were submitted to GRM. (For more details of the LTC work and publication lists, see Myers 1994 and Myers, West and Eliseu 1993.)

In February 1992 the LTC organized a national land tenure conference. The main presentations described land tenure models in other countries, those in eastern and southern Africa especially, that may be relevant to Mozambique. Attention was drawn also to the recently completed field studies in Mozambique. For the first time, there was public awareness of facts indicating that state farm divestiture was not taking place in a transparent, even-handed manner.

In 1993 the LTC work shifted its focus away from state farm divestiture *per se* to the more fundamental problems of post-war land access and security. A cooperative LTC/MOA research thrust was launched. Special attention was given to conflicts arising from resettlement and new land investments, uneven administrative handling of land transfers and taxation, ways to mesh customary local means of dispute resolution with provincial and national mechanisms, impediments to efficient and sustainable land resource use, and needed changes in land law to fit the post-war privatization era. By early 1994, seven additional case studies, research reports, and presentations had been generated by this land access exercise.

The LTC mobilized a Second National Land Conference in Mozambique, May 5-27, 1994. It was a major milestone in stimulation of informed knowledge and orderly discussion of land access and conflicts, customary/statutory law interfaces, land tenure and the environment, and land tenure and investment. Participants included 21 conference presenters, 24 central government officials and specialists, 51 provincial and district government officers, 16 political parties, 28 donor and NGO representatives, 3 private sector representatives, and 25 to 30 small farmers and rural extension agents. The participants from local levels made high-level officials very aware of the land tenure problems and abuses being encountered. The conference was financed by USAID and the Ford Foundation. The *Ad Hoc* Land Commission of the MOA, the Center for African Studies of the UEM, and the LTC were co-sponsors. (For a compilation of 14 of the conference presentations, see Weiss and Myers 1994.)

The LTC has involved social scientists from other universities in the work since 1991: Chris Tanner from Cambridge (2 months), Jocelyn Alexander from Oxford (8 months), and Joanne McGregor from Oxford (5 months). Some of the work of these scientists has been funded from the resources of their own universities.

One anthropologist, Harry West, who was part of the LTC/MOA team in 1991-1993, has stayed on in Mozambique under non-USAID funding to complete a Ph.D. dissertation on local

governance and land dispute resolution. He has maintained close contact with LTC/Madison and in effect is regarded as LTC's resident representative in Maputo. He reports that nearly every day he receives inquiries from donor organizations, NGOs, private businesses, and others about land laws, policies, and government procedures; LTC has gained the reputation as being the best single source of such information.

As of January 1995, following several months of discussion about future focus, USAID and Wisconsin seemed to be near agreement on an extension of the LTC land tenure work to at least the end of CY 1995. As proposed by Wisconsin, the extension would launch a build-up of capacities in the University Eduardo Mondlane, especially in its law, African studies, and agronomy groups, for conducting land tenure research. There has been correspondence with the Minister of Agriculture about continued MOA associations also. The LTC and UEM would jointly design and conduct a program of research studies, publications, and policy-oriented workshops. The objective of this work would be to develop a series of at least six models—three on institutional structures and three on legal structures—for presentation to the GRM to choose among in deciding future land tenure direction for the country. LTC would be able to provide the information and other data to support these models. Most importantly, an institution with long experience in providing workable solutions to land tenure problems will be available at a time when the GRM is certainly going to be called upon to resolve serious land access and land tenure issues.

4.2 Findings on Technical Assistance

Work carried out by the various technical assistance teams has provided the basis for better informed decisions on the part of the GRM, USAID and other donors, private sector agents and small farmers. The value of this work is widely recognized within Mozambique. Many, though not all, major wholesalers receive the SIMA reports and one local communications firm, Telefax, values the market reports highly enough to offer to pay for the service, which is currently distributed free of charge. Public discussion of unfair land practices has only emerged as a result of dissemination of findings on state farm divestiture and land tenure and as a result of discussion of land issues at conferences sponsored by the technical assistance component.

There still may be need, however, to disseminate the PSS/TA research and market information more widely. We met some key people in Government agencies and the food trade who had not yet heard of the market or research reports. It is not yet clear whether high officials in the new Government of Mozambique are fully aware of the MOA/MSU and LTC outputs and of their value for policy making.

The extent to which USAID has encouraged the MOA/MSU and LTC groups to translate findings into Portuguese, organize briefings and workshops, and feed materials to national media such as radio and magazines is to be commended. At this important juncture in national policy formation, it may be productive for the USAID-assisted research teams to use a concerted "social marketing" approach to target the key audiences for their work and to identify the best ways to reach them. Relevant audiences include not only Ministry officials themselves but also groups who may have important influence on public opinion and policy agendas: local leaders, farmer organizations, the emerging commercial and investment community, educators, and others. This type of work will require additional financial support from USAID.

The PSS/TA work since 1991 has demonstrated the importance of good timing in disseminating and discussing policy-related research. USAID people feel that delays by the Cornell team in writing up and discussing its study results reduced policy impacts. In contrast, the workshops of the LTC appear to have reinforced emerging concerns about land access abuses. LTC papers and discussion also helped to prevent the GRM from launching a new program of enforced settlements after the war. And, as noted elsewhere in this report, special information releases by the MOA/MSU team have aborted poorly conceived price policy actions on at least one occasion.

The MOA/MSU market reporting program (SIMA) seems to be taking off very nicely, and there has been discussion of expanding its scope. Some users have asked for "provincial SIMAs" that would cover more of the local agricultural commodities and also consumer goods.

Another thought has been to give more attention to time-series analysis of seasonal patterns, secular trends, and commodity outlook. Such analysis would help farmers, traders, agribusinesses, and investors to see the larger picture and to be more responsive to opportunities in the food and agriculture sector.

People with whom we talked in the provinces were not always clear about national policies concerning ceiling and floor prices, licensing, and other market regulations. We were told of instances where traders had given the wrong impression in order to pay less to farmers or to charge more to buyers. Current news about market regulatory changes may be useful information to add to the MOA/MSU market reports.

It is not too soon to start making more permanent institutional and financial arrangements for the SIMA work. MSU economists feel that within the Ministry of Agriculture the Statistics Department may be the best home for SIMA. Extension workers might help to disseminate the market information and explain to small farmers and other rural people what the implications are for them. In some countries, private subscription services have become effective channels for agricultural situation and outlook information. Some obtain their own data. Others combine government data with other information and further analysis. MSU should help counterparts to examine the options and move ahead on their own.

When conducting this evaluation, the team found it difficult to obtain solid facts about the effects of new agricultural enterprises and practices on food production, earnings, and employment. Policymakers need this kind of information for the major farm production and rural subsistence areas. Such farm input-output (costs and returns) data can be obtained without too much effort from representative farmers who are cooperating with extension programs, as well as from on-farm trials and demonstrations. One potential avenue would be agricultural specialists with the nongovernmental organizations (NGOs) that are handling the USAID-assisted agricultural recovery programs. Analytical attention should be given to likely gains from individual crop and livestock enterprises, alternative marketing and contractual arrangements, and farming systems sustainable for the longer run.

It may be productive for USAID-assisted Mozambican analyses to include two additional aspects: 1) problems facing businesses and investment firms who would help accelerate Mozambican development; and 2) longer-term changes in demographic patterns, economic growth, and food supply and demand that carry implications for agricultural producers, agribusinesses, and investors.

An important outgrowth of PSS/TA, both of the MSU and LTC work, is likely to be the development of alert young professionals who are being involved in the study teams. Besides the technical and factual knowledge they are gaining, they are acquiring rigor of thought, good work habits, management and human relations skills, and personal contacts that are likely to be very useful as they assume more influential roles in the future. If they don't find productive employment in government or educational work, it may be that they will become the nuclei for formation of competent private research and consulting services in Mozambique.

Some agricultural and rural policy dimensions that are starting to receive attention in Mozambique are the prospect of urban growth, rural-urban conflicts regarding land and water use, pressures for timber and mining concessions, and need to manage coastal resources wisely. These problem areas could have very direct implications for agricultural productivity, rural earnings, and food security. USAID might pave the way for competent Mozambican attention to cope with such problems by sponsoring overseas study programs for several young professionals who are likely to be in influential technical and program leadership roles.

The idea of USAID's continuing to work on food policy reforms in Mozambique via MSU and LTC makes sense. Both groups are providing useful data and have been responsive to changing needs. For example, MSU is generating market price bulletins weekly instead of monthly during the current drought and food shortage period in response to requests from USAID and other food aid sources. Considerable momentum and institutional memory would be lost if PSS/TA vehicles were to be changed at this time.

MSU and LTC have encountered some problems of mixed signals from various quarters in USAID about directions in which to head and counterpart links to be established. In addition, there has not always been good communication between the MSU and LTC groups. The current USAID strategy exercise should be a helpful step toward getting Mission staff and the contractor groups on similar wave lengths. A further step would be to have a low-key PSS/TA steering committee. It could include lead counterparts as well as NGO agriculturalists who know local farming situations. As noted in section 2.6, the need for a well-conceived strategic approach is especially important for the land policy technical assistance, because there are many actors and strong sensitivities. Once concluded, USAID's strategy exercise can be useful in providing guidance to the two cooperating institutions providing technical assistance. In particular, given the GRM's reluctance to address land issues adequately, USAID's guidance on this subject would be appropriate for determining the direction on which LTC should focus its research efforts in the short term. Once directions are determined, the close collaboration that has existed in the past between USAID and the two institutions can be expected to continue.

4.3 Recommendations on Technical Assistance

1. Continue with MSU and LTC as the mainstays of USAID food and agricultural policy assistance to Mozambique.
2. Once the Mission strategy is decided, determine any changes that are called for in orientation of the programs already agreed on with LTC and MSU and come to agreements with the two institutions to incorporate these new directions in Mission thinking.

3. Attempt in the future to negotiate new cooperative agreements earlier in order not to imperil the continuity of programs, which cannot be halted and restarted without cost to both USAID and the cooperating institutions.
4. Request MSU to expand its applied research to include international prices and markets for white and yellow maize. Cooperate with USAID and GRM in technical work needed to establish appropriate import parity prices for Title III imports.
5. Support LTC field research on land tenure conflicts, their resolution, and provision of viable policy alternatives for establishing a stable and fair system of access to land.
6. The evaluation team supports the decision to fund an emergency cashew rehabilitation program under the PSS/TA. Collaboration with ongoing MSU work in Nampula Province and investigation by LTC of land issues related to cashew production might be fruitful.

5. IMPACT AND EFFECTIVENESS OF COMMODITY IMPORT PROGRAM DISBURSEMENT MECHANISM

The Commodity Import Program is the engine that drives the Private Sector Support Program. It is the source of the foreign exchange and generated local currency that provide the clout for USAID to engage in the policy dialogue required to achieve the Policy Agenda. It is also the source of commodities that assist directly in the implementation of this Policy Agenda. The evaluation examined the appropriateness of the disbursing mechanism of the CIP.

5.1 Changes in CIP Disbursement in Last Three Years

Between 1984 and 1992, the CIP in Mozambique was USAID's main instrument for achieving policy reforms in support of a market economy, particularly in the agricultural sector. The program worked at two levels, policy dialogue and import of equipment and inputs. Policy dialogue focused on change from a Marxist, command economy to a free market economy and centered on agriculture, the most important sector in the economy. Equipment and inputs imported under the CIP benefitted small and medium-sized commercial farmers and private entrepreneurs. Increased productivity in the economy resulting from these changes and inputs was instrumental in convincing government officials to make changes such as the divestiture of state farms and the privatization of most public sector agricultural supply and product marketing enterprises.

Over the period of 1985 to 1992, the CIP provided a total of US\$107 million in foreign exchange to Mozambique. Excluding petroleum, which accounted for US\$16 million, the major capital items were more than 1,100 trucks (US\$32 million), more than 900 tractors (US\$6.442 million), and spare parts for both trucks (US\$400,000) and tractors (US\$4.0 million).

Although substantial amounts of fertilizer and other farm inputs were imported from the United States, until early 1992 most capital equipment came from other countries which met the CIP condition of having established networks for service and supply of spare parts in Mozambique. In response to a complaint from a U.S. truck manufacturer, the CIP program was basically stopped, except for some petroleum imports, for a period of more than one year by a Government Accounting Office audit of the program. The audit was completed in February 1994. During this time USAID/Mozambique actively solicited interest from all seven U.S. truck manufacturers. All but one of these manufacturers showed no interest. The manufacturer that had complained, however, did establish a service and spare parts network in Mozambique and has since made extensive use of CIP facilities to finance its export of trucks. Recently, other U.S. manufacturers have also succeeded in exporting trucks and buses to Mozambique using CIP facilities. Purchases of U.S. commodities, excluding petroleum, rose from under 20 percent through early 1993 to 94 percent through the end of 1994.

USAID has had to make a number of changes in the operation of the CIP in response to the changing business environment. The official exchange rate that had been set at one fiftieth of the parallel (black market) rate at the start of the program has fallen dramatically and now is within 6 to 8 percent of the parallel rate, making CIP funding much less attractive than it was initially. Commercial banks concentrating exclusively on commercial credit have been unwilling to provide medium-term loans to finance investment in capital goods, which constitute the bulk of imports under the CIP. To meet these challenges, 1) CIP geographic and sectoral limits

(agriculture only) have been dropped; 2) the CIP has been exempted from bank credit limits agreed to between the GRM and the IMF; 3) repayment terms have been extended, at near commercial rates of interest, from 120 days to three years, based on a Bank of Mozambique circular agreed to by USAID (and other donors); and 4) USAID agreed to accept Bank of Mozambique or Treasury guarantees without additional guarantees of payment of counterpart funds, which commercial banks appeared to be unwilling to provide. The effect of these changes is that 1) CIP funds are being disbursed, 2) nearly all funds finance U.S. commodities and 3) USAID is providing credit for counterpart funds at commercial rates of interest on the basis of the GRM guarantees of payment of counterpart funds.

Expectations are for a continuation for one year of CIP funding at a level of \$5 million with a possibility that an additional \$15 million might be added to CIP funding.

5.2 Impact of the CIP on Balance of Payments and GRM Budget

The CIP, with its foreign exchange component and subsequent generations of local currency, has a potential positive impact on both the GRM budget and on its balance of payment situation.

5.2.1 Impact of the CIP on Balance of Payments

As a part of the general economic decline since Independence, Mozambique has had a serious balance of payments problem. At Independence, export values were only half those of imports. Imports and exports peaked in 1981-1982, then began to decline. Merchandise exports dropped from US\$281 million in 1982 to US\$77 million in 1985, while imports dropped to half the 1982 levels. After adoption of the Economic Rehabilitation Program (PRE), an upward trend in imports was not accompanied by a similar trend in exports (Table 5.1). Between 1988 and 1994, the trade deficit grew by 55 percent, and in 1994 export earnings covered only 14 percent of the country's imports.

Mozambique's most important export products are cashew nuts, shrimp, cotton fiber, and sugar. Other exports are lobster, wood, copra, and cashew oil. Between 1987 and 1993, the volume of all export products fell, with the exception of shrimp and cotton which together were valued at US\$105 million in 1993.

Exports of goods and services comprise a small part of Mozambique's available foreign exchange; over 80 percent comes from donor assistance. The nation is the world's most aid-dependent country; external aid equalled US\$67 per capita in 1993. Net development assistance is nearly 70 percent of published national gross national product (GNP).

Grant assistance dwarfs all positive balance of payments current account entries. Soft loan disbursements have also contributed to a positive balance. Payment deficits have been made up through debt relief and the amassing of debt arrears. Private transfers and service's exports growth have been positive, but together they did not equal service's imports in 1994.

Most donor balance of payments support is tied assistance. The heavy dependence on donors for balance of payments support exposes the country to risk from fluctuations in foreign exchange flows, and the tightly tied assistance greatly reduces GRM flexibility to manage the external trade balance.

The near-term future balance of payments outlook is not optimistic. Although agriculture is recuperating from effects of the war, the evaluation team's observations in the field indicate that cashew and cotton production may be off substantially in 1995. As an annual crop, cotton has the potential to recover quickly, but the hurricane blowdown of cashew trees is a terrible loss that will be felt for many years.

The primary impact of the PSSP CIP on Mozambique's balance of payments is to provide a net addition to merchandise imports. In the absence of the CIP, the country might import some of the same goods, but *ceteris paribus* it would be necessary to reduce other merchandise imports by the net amount of the CIP balance of payments contribution. Thus, over the life of the PSSP, CIP merchandise imports will add net US\$64 million to the country's total merchandise imports. Using GRM published balance of payments import data (Table 5.1), CIP imports will amount to about one percent of Mozambique's officially recorded imports over the life of the PSSP.

5.2.2 Impact of CIP Disbursements on GRM Budget

The GRM has run a budget deficit every year during the past decade. Foreign grants became an important budget component in the first year of the PRE (Table 5.2). Grants rose nearly tenfold over the previous year, holding the overall deficit to a large 12 percent of GDP. Since 1987, there has been progress towards deficit reduction in real terms and as a proportion of GDP; in 1993 the deficit, after grants, was 5.2 percent of GDP. GRM revenues collections have improved since 1987, but lower real deficits have been accomplished through increasing levels of foreign grants for the same year.

PSSP CIP disbursements have contributed positively to the GRM budget through generation of local currency. To date, some MT45 billion from CIP counterpart fund generations has been disbursed to the GRM; disbursements amount to approximately 1 percent of GRM total revenues. CIP disbursements in 1993—the largest disbursement year—were MT24 billion of a total MT32.9 billion of U.S. local currency assistance. According to GRM statistics, PSSP CIP disbursements in 1993 amounted to 6.1 percent of total donor local currency grants and 5.2 percent of all donor local currency grants and loans.

PSSP CIP local currency disbursements have gone to 12 different public entities. Over the program's life, five public entities have absorbed three-fourths of all disbursements. The five public entities are, in descending order, University Eduardo Mondlane, MT12.5 billion; Ministry of Agriculture, MT10.7 billion; Ministry of Finance MT5.8 billion; and Ministry of Education, MT1.9 billion. For the UEM, the contribution represented 19 percent of the 1993 programmed budget, and for the Ministry of Agriculture, it was almost 6 percent of the programmed budget.

5.3 Recommendations on CIP Disbursements

1. USAID should continue the CIP along basically the same lines followed to date, with perhaps an addition to the policy dialogue of a small number of issues.

Table 5.1 Mozambique: Balance of Payments 1988-1994
(in millions of US\$)

	1988	1989	1990	1991	1992	1993	1994*
Merchandise Exports (fob)	103.0	104.8	126.4	162.3	139.3	131.8	164.0
Merchandise Imports(cif)	- 735.6	- 807.7	- 877.5	- 898.7	- 855.0	- 954.7	- 1,143.8
Trade Balance	- 632.6	- 702.9	- 751.1	- 736.4	- 715.7	- 822.9	- 979.8
Exports of Services	156.6	166.7	173.4	202.8	222.6	239.8	242.6
Imports of Services	- 259.3	- 311.5	- 286.0	- 312.4	- 355.5	- 361.4	- 399.8
Private Transfers	78.0	85.0	97.5	107.6	110.0	125.0	127.5
Current Account, excluding grants	- 657.3	- 762.7	- 766.2	- 738.4	- 738.5	- 819.6	-1,009.4
Official Transfers	376.8	387.5	448.4	501.7	499.4	503.3	658.8
Current-Account Balance including grants	- 280.5	- 375.2	- 317.8	- 236.7	- 239.2	- 316.2	- 350.6
Capital Account Balance	- 126.2	- 55.0	- 83.5	- 187.5	- 155.1	- 107.0	- 7.4
Foreign Borrowing	247.5	256.7	251.4	144.1	169.8	185.5	276.4
Loan Amortization	- 378.2	- 315.1	- 344.1	- 354.1	- 350.2	- 324.5	- 318.8
Direct Foreign Investment	4.5	3.4	9.2	22.5	25.3	32.3	35.0
Net Errors & Omissions	33.6	8.7	3.1	33.7	- 12.3	- 7.8	--
Overall Balance	- 436.8	- 421.5	- 398.2	- 457.9	- 406.6	- 431.1	- 358.0

Source: Anuario Estatístico, National Planning Commission, National Statistics Direction and Internal Monetary Fund.

* Programmed

Table 5.2 Mozambique: Government Finances, 1988-1994
(Programmed budget in billions of meticals)

	1988	1989	1990	1991	1992	1993	1994*
Total Revenue	130.7	226.5	298.0	447.1	661.0	1,092.6	1,646
Tax Revenue	110.1	199.8	266.4	379.8	574.1	995.0	1,512
Non-tax Revenue	20.6	26.7	31.6	67.3	86.9	97.6	133
Total Expenditures	288.5	473.0	693.2	958.3	1,496.1	2,307.8	3,796
Current Expenditures	148.8	246.8	342.5	457.4	764.7	1,170.8	2,085
Capital Expenditures	139.7	227.0	350.7	500.9	731.4	1,137.0	1,171
Deficit Before Grants	- 157.8	- 246.5	- 395.2	- 511.2	- 835.2	- 1,215.2	- 2,150
Grants Received	91.8	159.8	226.3	382.5	690.0	932.2	1,766
Overall Deficit After Grants	- 66.0	- 86.7	- 168.9	- 128.7	- 145.2	- 283.0	- 385
Financing							
Foreign	52.9	81.7	168.5	127.7	115.9	204.1	166
Domestic	13.1	5.0	0.4	0.9	67.3	78.9	218

Source: Anuario Estatístico, National Planning Commission, National Statistics Direction and Internal Monetary Fund.

* Programmed

2. A principal point for continuing discussion with the Government should be the accelerated privatization of remaining state-owned enterprises supporting agriculture either on the input supply or product marketing sides. Of particular importance are those enterprises and policies affecting the cashew sub-sector, which has provided substantial cash income for small farmers in the past. Discussions should also include the need to liberalize markets for principal small farmer export crops such as cashews and cotton to increase much needed foreign exchange earnings and to raise incomes of the rural poor.
3. USAID should consider setting maximum limits according to the amount of funds available, in order to provide CIP-funded commodities to as large a number of importers and final customers as possible.
4. The Mission might want to let U.S. companies currently operating in the Republic of South Africa know about the terms of the CIP.
5. At some future date, USAID may want to replace its CIP with direct allotments through private banks to private sector businesses, with *ex post* accountability for funds use; it would be worth closely following the results Switzerland obtains with funding (SwFr. 12 million) it made available to a private commercial bank under these conditions.

6. THE BANKING SECTOR

The effectiveness of the Private Sector Support Program Commodity Import Program mechanism is determined largely by the capacity of the financial and banking sectors to support import transactions. Section 2.5 examined the significant progress made over the past decade in reforming Government of Mozambique foreign exchange policies and foreign exchange management. This section reviews the situation of Mozambique's banking and financial sector and makes recommendations for USAID action.

6.1 Banking and Financial Sector Developments

The substantial progress made in reforming GRM foreign exchange market policies and in managing foreign exchange is reviewed in section 2.5. In brief, the foreign exchange price is now market-related, although access to foreign exchange continues to be a problem for two main reasons: 1) the secondary market is thin and cumbersome, and 2) the banking and financial system is rudimentary. The focus of this section is on the latter issue.

The key economic development role of the financial system is to mobilize savings and make resources available for investment. There is strong evidence that Mozambique's financial and banking system is not fulfilling that role.

The institutional framework for mobilization of domestic savings is extremely weak. There are few banking and financial entities, and total financial resources are concentrated in state institutions. There are two state-owned commercial banks and three privately owned commercial banks. Other entities in the system include a state-owned insurance company, two privately owned insurance companies, and a financial institution, owned by the state banks, established to support money and capital market instruments.

The two state-owned banks, *Banco Commercial de Moçambique* (BCM) and the *Banco Popular de Desenvolvimento* (BPD), dominate the financial system. In 1993, the two banks controlled 89 percent of all commercial banking assets, 89 percent of all loans, and 86 percent of all deposits. Given access to central bank overdraft facilities, neither bank has an incentive to attract and mobilize domestic savings.

A World Bank study showed that in 1993 loans to the 30 largest borrowers composed half of all commercial lending. Half of all loans to this client group were non-performing loans; none of the performing loans were to state-owned enterprises.

Information gained in the evaluation team's field interviews indicated that the BPD was making some loans for cotton in Nampula Province from lines of credit from the World Bank. These credit lines have apparently been poorly managed.

The three private banks, the *Banco Portugues do Atlantico*, the *Banco Standard Totta de Moçambique* and the *Banco de Fomento e Exterior*, play a small but positive role in resource mobilization. Little is known about informal financial markets, but they appear to have highly limited elasticity given rural impoverishment.

The demand side of the financial market is also weak. Few private Mozambican businesses are credit worthy. Most state enterprises are debt-ridden and have little short or long-term promise for moving to positive bottom lines.

Although the overall picture is bleak, there has been some progress toward reform of the banking and financial system. A start was the separation of the commercial and central banking functions of the Banco de Moçambique (BM) by opening the BCM in June 1992. At the same time, legislation was passed that permitted greater competition in the insurance industry. A number of foreign banks are showing interest in entering Mozambique. It is also important to note that in mid-1994 the BM deregulated interest rates for commercial banks. Interest rates on commercial loans are now positive.

Although there are small positive shifts, Mozambique's current banking system is not competitive and provides limited banking support to the economy. The allocation of a large proportion of total financial resources is governed by priorities of the State, not by the financial integrity of borrowers. Some reform steps have been taken, but the poorly operating system continues to be a major impediment to Mozambique's economic development.

The World Bank's Second Economic Recovery Credit Program (SERC) addresses many of the deficiencies of Mozambique's banking system. The SERC focuses on:

- Improving management of public expenditure and external aid
- Strengthening monetary policy management of the Central Bank
- Restructuring the financial sector
- Reforming state enterprises

The SERC is a large—US\$200 million, Swiss Francs 10 million, British Pounds 10 million, and Danish Kroner 40 million—comprehensive effort to address key elements of fiscal and monetary policy, and to support an interlinked program of enterprise and financial sector reform.

6.2 Recommendations on the Banking Sector

1. Given the comprehensive reform agenda of the SERC, the team recommends that USAID focus on two complementary areas to deal with balance of payments, foreign exchange and financial sector problems: a) stimulate agricultural exports (see section 2.5), and b) foster financial resource mobility in the agricultural sector.
2. The generation of foreign exchange through the growth of agricultural exports alone will tend to stimulate greater financial resource mobility through the formal and informal financial markets. Any functional improvement of the formal market, however, is likely to be years away. Mozambique's financial/banking system is severely underdeveloped and cannot be expected to make notable contributions to financial resource mobility until major reforms are fully adopted and implemented. The team believes USAID's opportunities do not lie in direct participation in formal financial market reform.
3. The greatest opportunities may lie in promoting development of the informal financial market. This path is strewn with potential pitfalls and should be carefully assessed before action is taken. The state of knowledge on the informal financial market,

however, is the most advanced in economic development literature. There is significant expertise in the diagnostic analysis of informal financial markets. An example is the USAID-assisted financial markets program at the Ohio State University (see the USAID/Mozambique-financed study by Graham 1991). There is also considerable capability in the implementation of alternative financial markets in such organizations as the World Council of Credit Unions. The incapacity of the formal and informal markets to mobilize financial resources is a serious constraint to Mozambique's economic development; USAID should explore ways to improve the nation's financial resource mobilization. The World Bank and other donors would be highly supportive of USAID efforts in this area.

7. SUMMARY OF FINDINGS

This chapter summarizes the findings of the evaluation team first on the Private Sector Support Program overall, then on specific elements of the Policy Agenda and issues related to technical assistance, and lastly on the Commodity Import Program disbursement mechanism.

7.1 Overall Conclusions

PSSP has successfully completed its initial policy agenda. This agenda was a well conceived document that represented significant and fundamental changes in the agricultural, and later, the petroleum sector.

The formal policy dialogue was diverted in 1992 by the emergency of the drought and then again by the transition program of both USAID and the GRM after the signing of the General Peace Accord between FRELIMO and RENAMO. This diversion from the formal dialogue process, however, did not stop the informal dialogue process, and continual policy advancements were made.

The PSSP Policy Agenda was part of a multi-donor and GRM effort to shift Mozambique's economy and political structures away from a Marxist-Leninist command economy toward a democratic, market-based economy. PSSP's particular niche in this process was in the area of supporting the development of the agricultural private sector. Within this area, PSSP was able to have an impact larger than the resources devoted to it would imply.

The technical assistance and commodity import program components of the PSSP were well executed and supportive of the effort to undertake PSSP's Policy Agenda.

Although it is difficult to attribute specific impact to the PSSP Policy Agenda, the rapid economic growth of the agricultural economy has resulted in benefits at both the aggregate and individual levels to the Mozambican economy and people. These benefits can be associated with the PSSP effort. In some cases, benefits can be directly attributed to the program.

7.2 Policy Reforms

Six policy reform elements are in the Policy Agenda. Findings for each are the following:

7.2.1 Agricultural Pricing Policy

Liberalization of agricultural prices has progressed to cover nearly all agricultural products. These reforms have had a significant impact on agricultural production and on availability of farm products in the market. The general liberalization of the agricultural market was only possible in conjunction with the liberalization of prices.

Although market-based pricing of agricultural products is now general policy, there is always the danger that in reacting to immediate crises the policy principle of adhering to market-determined prices can be temporarily lost. Continual vigilance is needed to ensure that commitment to price liberalization will be maintained.

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7.2.2 Divestiture of State Farms

The case studies, other research, national conferences, and individual contacts initiated by USAID and the LTC since 1989 have been major ingredients in calling attention to state farm divestiture abuses. In addition, attention has been brought to more universal needs of small and medium-sized farmers for clarification of land rights and for development of equitable means to resolve land security conflicts in Mozambique. The work by LTC has made possible open discussion of the needs of small and medium-sized farmers for clarification of land rights and for equitable resolution of land security conflicts in Mozambique.

Rural land security is high on the agenda of many leaders and influential groups. It is becoming recognized that national legal and administrative changes need to be combined with traditional local means for land allocation and conflict resolution. Yet sufficient policy-level commitment and supportive expertise has not yet been mustered. Continued technical assistance in land tenure is crucial at this time when major land issues have to be resolved.

7.2.3 Private Agricultural Sales and Service

Despite some imports of fertilizer, tractors, and seed under the CIP, supplies of farm equipment and other imports are insufficient and are likely to remain so until the distribution system within the country is fully reestablished. Important to achieving this goal is the privatization of the remaining state farm supply enterprises. Joint venture companies and some of the larger private farmers do supply farm chemicals and seed to small-farmer out-growers for cotton. An emergency cashew rehabilitation project for Nampula Province will use private sector cashew firms to supply seedlings and other inputs to small farmers affected by the 1994 cyclone.

The USAID CIP addressed the issue of after-sale service and spare parts supply by requiring potential program beneficiaries to set up dealerships in targeted areas. This requirement was a prior condition of eligibility for CIP foreign exchange. The result has been that successful truck and tractor dealerships have been set up in a number of provinces where no such services existed before. These businesses continue to provide not only new farm equipment but also after-sales support for items they have sold in the past. They are providing service even though their access to foreign exchange under the CIP has now ceased. The policy requiring dealerships to provide service has meant that goods imported through the CIP are continuing to provide service to the country. Through custom service, in the case of tractors, and transportation of people and cargo, in the case of trucks, this equipment is providing service to a broad spectrum of the rural population.

7.2.4 Access to Foreign Exchange

Significant exchange rate distortions of the past have been eliminated, and development of a unified secondary market has caused some improvement in access to foreign exchange. Administrative allocation of foreign exchange is reduced, and the basic legal and institutional framework is now in place to permit Mozambique's foreign exchange market to function according to market principles.

Private entrepreneurs have somewhat greater access to foreign exchange, but their access is seriously constrained by foreign exchange market conditions that reflect donor policies and

by a rudimentary banking system and poorly operating financial markets. Further revisions of the GRM foreign exchange policies are unlikely to enhance foreign exchange accessibility; such conditions are not sufficient for providing private entrepreneurs greater access to foreign exchange.

7.2.5 Private Marketing Channels

The private sector now plays a more important role than it used to in agricultural product marketing. By providing an incentive for the GRM to drop fixed prices for vegetables, the CIP was instrumental in the explosive growth of the now flourishing vegetable produce markets in all cities and major towns in the country. In addition, growth of these markets expanded the economic opportunities of the greenbelts that support vegetable production near the urban centers. A functional free market trade in food grains and other food stuffs, a large proportion of which was provided as food aid by United States and other donors, has developed to replace the rationing system which has been less and less able over time to provide for the food requirements of the populations of Maputo and Beira. Wholesale and retail trade in food grains, beans and other non-perishable agricultural products has been reestablished, largely replacing the Government purchasing agent ICM (formerly AGRICOM). Retail trade has also been liberalized and expanded as small-scale itinerant traders (*ambulantes*) scour the countryside for farm products to retail at the increasing numbers of open markets. Thus a new marketing system is developing. It appears capable of serving Mozambique's present needs and responsive enough to accommodate those which will arise in the future.

Marketing of export crops such as cashews and cotton, crucial to raising small farmers' cash incomes, has shown considerable improvement over recent years as marketing boards have been dismantled and their assets privatized. Marketing channels have now been reestablished in most of the country, but some barriers to export of cashews and other restrictions on entry of new firms eager to purchase and export such crops still exist. Removal of these restrictions is crucial to increasing the minimal share of the export parity price received by small farmers. The present low return is limiting their willingness to rehabilitate cashew orchards and to expand the acreage they plant to other export crops. Expansion of areas in such export crops can contribute significantly to increasing both export earnings of foreign exchange and incomes of small farmers, but such expansion is dependent on access to competitive markets and payment of sufficiently attractive commodity prices to farmers.

7.2.6 Petroleum Importation and Marketing

There is strong and compelling evidence of a direct policy/objective, policy/impact relationship in the implementation of the petroleum reform measures. USAID has meticulously monitored petroleum sector developments, has frequently and openly communicated concerns to the GRM and other donors, and has been successful in bringing about notable reform of Mozambique's petroleum sector. The petroleum sector reform task is not complete, but USAID and other donors have a clear and congruent vision of matters still remaining on the policy agenda with Government.

7.3 Technical Assistance

The technical assistance provided under the PSS/TA by Cornell University, MSU, and the University of Wisconsin LTC in the areas of food policy, agricultural prices and land tenure

has been relevant and effective in addressing the major issues facing the agricultural sector and the population that depends on it. As a result of this technical assistance both the GRM and USAID have been better able to make informed decisions and to arrive at a well reasoned and mutually agreeable policy agenda. This agenda has generally been implemented as agreed. Issues needing to be addressed in future policy agendas have been pointed out by technical assistance teams through their research, workshops and seminars, and technical reports. MSU and LTC's work to date has prepared them to continue to provide the GRM with assistance in pricing and market policy and with the technical expertise in land tenure to provide alternatives for resolving issues of land conflict and land access. Both teams have contributions to make in the area of food security at a time when large numbers of migrants are returning to land they customarily farmed in their places of origin.

7.4 CIP Disbursement Mechanism

The CIP has been adequate to the task for which it was designed and flexible in responding to changes in the economic climate in which it has operated. In its early years it provided the private sector with foreign exchange otherwise unobtainable for acquiring inputs and capital equipment, principally tractors and trucks, required to rebuild and transform Mozambique's devastated agricultural economy. At crucial moments, the CIP financed petroleum without which operation of farm equipment and transport of agricultural inputs and products would have halted. As U.S. manufacturers took a greater interest in Southern Africa in general and in the Mozambican market in particular, a much higher percentage of CIP-financed commodities were provided by U.S. manufacturers. As the GRM adopted a more rational pricing policy toward foreign exchange, a policy change long advocated by the United States and other donors, USAID was quick to respond by adapting program rules to maintain continued private sector interest in using CIP facilities. These changes included extending terms for payment and waiving commercial bank, though not central bank, guarantees of payment of local currency counterpart funds.

There is strong evidence that Mozambique's banking and financial system is not fulfilling its key development responsibility of mobilizing financial resources. The current banking system is not competitive and provides limited banking support to the economy. Allocation of a large proportion of total financial resources is governed by priorities of the State, not by the financial integrity of borrowers. Although there has been some progress toward reform of the banking and financial system, the system seems to be a major impediment, rather than a asset, to Mozambique's economic development.

7.4.1 Impact of CIP Disbursements on GRM Budget

CIP disbursements have contributed positively to the GRM budget through generation of local currency. Some MT45 billion has been disbursed, amounting to approximately 1 percent of GRM total revenues over the program's life. Five public entities have absorbed three-fourths of the disbursements, with most going to the University Eduardo Mondlane and the Ministry of Agriculture. For these two entities, CIP local currency disbursements represented 19 and 6 percent respectively of total programmed budget in 1993. Long delays on the part of the GRM in crediting payments to the special account are a matter of concern, especially as these delays affect the budgets of PVOs funded out of ten percent of the funds accruing to this account.

7.4.2 Impact of CIP Disbursement on Balance of Payments

The primary impact of the CIP on Mozambique's balance of payments is to provide a net addition to merchandise imports. Over the life of the PSSP, CIP merchandise imports will add net US\$64 million to the country's total merchandise imports, or about one percent of officially recorded imports over the program's life.

8. SUMMARY OF RECOMMENDATIONS

8.1 Overall Recommendations

The evaluation team believes that the Private Sector Support Program has achieved positive results and has represented an appropriate use of U.S. resources. Its work has led to changes in the basic structure of the agricultural sector, making possible expansion of private sector productivity and income. We recommend that the PSSP program be continued with a revised Policy Agenda that builds on the program's experience. Suggestions on major elements for the revised Policy Agenda are made in the recommendations below.

8.2 Policy Recommendations

Throughout this evaluation a number of recommendations have been presented. The following is a summary of these recommendations in eight categories. Seven of these categories deal with specific policy elements appropriate for possible future USAID support. The last category deals with recommendations on technical assistance and program management.

8.2.1 Price Policy

The policy objectives on price policy have, in general, been met. Nevertheless, this area, critical for a market-oriented economy, needs continual attention.

- a. Maintain and expand the work undertaken by MSU under the PSS/TA on the Sistema Informação de Mercado Agrícola (SIMA). Information is the best tool for making and monitoring agricultural pricing policy. Knowledge about free market prices by province and district officials and market participants will help in making them aware of how markets work.
- b. Maintain a continued vigilance on backsliding toward prices administered by Government or special interest groups. The proposal made in April 1994 by the unions, traders, and the Government to fix prices in order to achieve a social good is seductive to people who do not yet fully appreciate the workings of a market economy.
- c. Strongly encourage the Government not to continue to try to reestablish some form of administrative prices in the market either through setting unenforceable floor prices or through buying campaigns for food goods such as local maize. These activities lead only to confusion and inefficiency in the marketplace.

8.2.2 Land Tenure Policy

Clear land tenure policy and resolution of outstanding land tenure issues are some of the most important elements necessary for the establishment of a viable agricultural private sector.

- a. Shift emphasis of the land tenure focus of PSSP from divestiture of state farms, on which general agreement has been reached, to the more general issue of resolution of land conflicts, particularly in areas where multiple claims derived from various levels of authority are made on the same productive agricultural land.

- b. Continue efforts to engage policymakers in recognizing publicly the need and urgency of addressing land tenure issues. Conviction is essential for beginning the politically and technically difficult task of establishing a fair and efficient land tenure system in the country.
- c. Support efforts by LTC and others to provide empirically based practical models and approaches for use by Mozambicans to begin to come to grips with land tenure issues.

8.2.3 Agricultural Sales and Services

The PSSP has taken important steps in expanding of private agricultural sales and services of agricultural inputs and equipment, including transportation, but more can still be done.

- a. Until more suitable mechanisms are found, the CIP should be continued in support of expanding private agricultural sales and service facilities that serve small and medium-scale commercial farmers.
- b. Given the proximity of the secondary exchange rate to the parallel rate, the CIP is less attractive than it initially was, hence there is a greater openness to other geographical areas and other sectors. Nevertheless, given agriculture's importance to the country and mission goals of improving farmer incomes, if the demand for CIP funds exceeds funds available, preference for agriculturally related inputs and equipment is desirable. Particular attention should be given to CIP support of activities where commodities would be likely to have positive impacts on cash incomes of small farmers.
- c. One issue for the policy agenda of the CIP should be reduction of customs duties on spare parts for trucks and farm-machinery. These duties make keeping equipment in good running order difficult. This issue may be more related to IMF/WB policies than to those of the GRM.
- d. Rapid expansion of private agricultural sales and services will not take place until there is ready access to credit for medium and small entrepreneurs. Although access to credit may not be an issue for USAID direct involvement, USAID should continue to press for and assist GRM with improvement in backing policies that are conducive to expansion of private credit and savings services in rural areas.

8.2.4 Foreign Exchange Policy

The foreign exchange policy objectives of PSSP have been achieved. The program should now look for a different approach to the foreign exchange problem.

- a. USAID should maintain its interest in reforming the foreign exchange and related banking policies and structures, but future policy direction should focus on complementary measures that enhance access to foreign exchange and mobilize domestic financial resources. The growth of exports, especially agricultural exports, offers the greatest longer run opportunity to increase foreign exchange earning.

- b. USAID should continue to support reforms of the foreign exchange mechanism and the banking structure. An effective way of doing this is by supporting the World Bank Second Economic recovery Credit Program (SERC) reform agenda and other related reform efforts.
- c. Specific reforms that USAID should support include fostering competition in financial markets by privatizing state owned banks and providing a favorable environment for the growth and development of new and existing private financial entities. Breaking down barriers to market access in key export markets such as cashew nuts could notably enhance foreign exchange earnings and the mobilization of financial resources.
- d. USAID should consider the exploration of ways to improve the nation's financial resource mobilization. The greatest opportunities may lie in encouraging development of the rural financial markets and non-bank financial institutions. Any functional improvement of the formal market is likely to be years away. Mozambique's financial/banking system is seriously underdeveloped and cannot be expected to make notable contributions to financial resource mobility until major reforms are fully adopted and implemented. The team believes USAID's opportunities do not lie in direct participation in reform of the banking system but rather in support for non-bank financial institutions.

8.2.5 Policies to Improve Market Access

The most opportune policy issues for USAID to pursue in the near term to support the agriculture private sector are those related to improving market access for both production and marketing.

- a. Divestiture of state-owned enterprises providing inputs and services to agriculture and work in the processing and marketing of agricultural products is still incomplete and should be a matter for policy discussion.
- b. Licensing of traders at various levels of rural marketing should exist only to protect public welfare. For example, health restrictions on food vendors would be reasonable. Licensing should not be used to restrict entry to markets so as to preserve local monopsonies, as in cashews. USAID should include in its policy agenda the elimination of licenses affecting trade except where they contribute directly to public welfare.
- c. USAID should encourage continued domestic purchases of maize and other products by the World Food Program and PVOs to foster resurgence of farm production.
- d. USAID should assist in the study of internal road transport and coastal shipping costs for agricultural products. Reduction of the cost of transportation from producing to consuming centers is a major priority for food security in the country. This could be achieved through increased competition resulting from elimination of barriers to entry.
- e. USAID should devote special attention to discussions on policy matters related to those crops such as cashews that provide small farmers with cash incomes. In particular, barriers to entry on the marketing side need careful study. If resources permit, GRM

should establish programs to support small farmer production and fair marketing of these crops.

- f. USAID should continue to seek the widest possible distribution of information to farmers, traders, dealers, and local officials. Information should include data on markets and related prices as well as data on land tenure regulations. This information is being generated by the PSS/TA component.

8.2.6 Petroleum Related Policy Issues

Petroleum imports under the PSSP commodity import component have been questioned in previous reviews.

- a. The petroleum import component should be a part of a future program only if such allocations do not significantly reduce the availability of funds for capital equipment in direct support of the private agricultural sector.
- b. USAID should use resources to pay for Mozambique's current petroleum consumption only if such support can lead to the achievement of significant and yet unattained petroleum policy goals. Mozambique's petroleum sector has a high profile in the public eye. The effects of reform will be visible and can serve as a conspicuous demonstration of the potential benefits of economic liberalization in other sectors of the economy.
- c. To avoid riots sparked by infrequent but large nominal increases in the price of petroleum products and problems of cost creep faced by wholesalers and retailers, all petroleum prices should be set in dollar terms and adjusted automatically whenever the official (secondary market) rate changes. The dollar prices thus established should be reviewed quarterly and adjusted in dollar terms to reflect changes in dollar and local currency costs at wholesale and retail levels.

8.2.7 Food Aid and PSSP Policy Agenda

Food aid activities directly affect many of the policy elements of the PSSP Policy Agenda.

- a. USAID, jointly with other donors, should insist on progressive gradual movement of release prices of program food aid toward import parity pricing.
- b. The establishment of warehousing agents as consignees to allow small private millers access to program food aid was a good and reasonable decision. USAID should continue to expand the number of firms having access to food aid shipments, and in particular should encourage the establishment and expansion of small millers whose products target low-income consumers.
- c. Government institutions such as DPCCN should concentrate on identification and delineation of emergency situations and should collaborate in planning for the food aid needed to address them. USAID and other donors should encourage moves already taken by the GRM in this direction.

- d. Emergency distribution should be handled by PVOs such as World Vision and ADRA. USAID should continue to channel its food aid through PVOs, and, in its discussions with the GRM, should encourage the channeling of food aid from whatever source through PVOs.
- e. Where possible, USAID should encourage the establishment of privately owned hammer mills in both grain-producing and grain-consuming areas to reduce the burden on women of hand processing.

8.3 Recommendations on Technical Assistance

Technical assistance provided by the PSS/TA project has been of overall high quality and relevance.

- a. USAID should continue working with the present technical assistance teams and should build upon the work they have done to date.
- b. Technical assistance teams should be encouraged to expand their work to include, as they arise, new issues within their respective areas of expertise.
- c. USAID should continue to support the institutionalization of the SIMA within the MOA.
- d. MSU should expand its work to include analysis of the regional and international markets for maize and of how Mozambique can in the future make most effective use of commercial imports to supplement domestic production.
- e. MSU should investigate gender-specific impacts of the introduction of hammer mills on women's time and incomes.
- f. LTC's mandate should be broad enough to allow it flexibility to respond with sufficient resources in terms of personnel and recent field-generated knowledge of the Mozambican land tenure system when the GRM decides to address the land issue.
- g. Continued field research is a key factor in being able to respond effectively when the appropriate time comes to support measures addressing the country's land problems.
- h. Both technical assistance teams need to work on land access issues as they relate to food security. In a society where 85 percent of the population lives in rural areas and is dependent on agriculture, either directly or indirectly, for its sustenance, land access and food security are inextricably entwined.

8.4 Recommendation on Program Management

Program management has shifted during the course of the project, and policy dialogue has often been on an informal basis. As PSSP moves forward into a new phase, the Mission needs to rethink how management of the Program and its Policy Agenda should occur, and a more formal system for management of responsibilities should be established. Responsibilities for the overall management of the project and development of the policy reform agenda should be closely linked while still involving a cross-section of the Mission. The management and

direction of PSSP should be done through a cross-sectional task force under the direction of the Head of the Agriculture and Food Resource Office. The Policy Agenda for PSSP should be supported within the task force by the Mission's Program Economist who has responsibility for the whole of the Mission's policy agenda.

ANNEX A: TERMS OF REFERENCE

The four-member evaluation team will travel to Mozambique to review USAID/Mozambique program and strategy documents and meet with USAID staff, contractors, GRM officials, and other donor agency representatives, in order to objectively assess the impact, progress, focus and scope of the Private Sector Support Program (PSSP). The assessment will center on the following issues:

1. What has been the impact of the PSSP on:
 - People (e.g., farmers' incomes, rural food security, nutritional status of farmers' families, food security for other Mozambicans, spin-off employment opportunities and income, etc.); are there gender-based differences in impact?
 - Agricultural marketing at all nodes of the network; are there gender-based differences here?
 - Policymakers? and
 - GRM budget and Mozambique's economic situation?
2. Has the PSSP been able to identify and effectively address policy constraints to private sector agricultural production and marketing? Have the policy reforms chosen been necessary and sufficient?
 - Based on the impact analysis, has implementation of the policy reforms progressed to where the Mission should be turning attention to other policy areas? Or, do the PSSP-targeted reforms need additional or continuing attention?
 - If the policies targeted under the PSSP have been sufficiently successful to allow attention to turn to a new phase, which policy areas should the Mission next be pursuing?
 - What are the expected impacts of any such proposed changes in the policy agenda?
3. Has the technical and related assistance provided in support of the program been appropriate? What has been the impact to date of the TA (e.g., providing information to policymakers, recommending refinements in policy reform direction, building Mozambican policy analysis skills, providing information on the impact of the PSSP, etc.)? How could the technical assistance be improved? If a new or revised policy agenda is proposed, what TA will be needed?
4. What has been the impact of the PSSP's CIP disbursement mechanism in terms of both the commodities imported and the effect of the import support on the GRM budget and balance of payments? (Consider in light of people-level impact,

including gender-differentiated impact, agricultural production and marketing, rural development, policy influence, etc.) Within the programming limits of the DFA, is a CIP the optimal disbursement mode to achieve program objectives and impact? For the next phase of NPA, are there other modes of disbursement which might be more appropriate to achieve desired impact?

Specific Tasks for PSSP Evaluation:

1. Assess the current status of the policy reform agenda and the extent to which the agenda (as amended) has been adhered to; where compliance has been undocumented or incomplete, or otherwise less than satisfactory, discuss reasons and recommend action to address these gaps.
2. Review and critique the evolving policy dialogue process through which the Mission pursues the reform agenda. Policy dialogue in this context includes direct dialogue with ministerial officials, inter-ministerial coordination, technical assistance, and coordination with other donor agencies on policy objectives and strategies.
3. Discuss the PSSP policy reform agenda and progress in the context of the ongoing Government of Mozambique — World Bank — IMF Policy Framework Papers (PFPs) and related policy and strategy statement of Government; where has USAID support made a difference? has it missed opportunities?
4. Review the relationship between the PSSP policy agenda and the policy agenda pursued under PL 480 commercialized food aid programs during the same years; identify where these have reinforced each other or where these may have suggested conflicting priorities, and recommend ways to better integrate the objectives of these two programs.
5. In light of PSSP objectives, DFA requirements, and USAID's FY 1990-1992 Country Program Strategic Plan and FY 1993-1995 Transition Program, discuss levels and extent of PSSP impact, identify areas where expected impact has been constrained and suggest reasons why; to do this, utilize available information from the Mission's October 1991 and 1992 Assessment of Program Impact, from the Mission's database and ongoing monitoring activities, from research activities assisted by Michigan State University, the Land Tenure Center, and Cornell University, and from short site visits if feasible. In particular, discuss impact of policy reforms on agricultural production and income of smallholders and on the marketing networks (inputs, consumer goods, and products) serving them.
6. Assess type and level of USAID implementation and impact monitoring activities, taking into account the existence of constraints on site visits; recommend adjustment in monitoring activities to permit the Mission to better assess program impact given these constraints (and where appropriate discuss implications for Mission staffing).
7. Review CIP implementation under the PSSP, and comment on the procedures for allocating available funds; recommend changes as appropriate to ensure more

timely disbursement and more market-based allocations. (This is not, however, intended to be an in-depth evaluation of the CIP per se.)

8. Review recent developments on foreign exchange management and banking sector operations in support of import transactions; in light of these, and given DFA requirements, discuss disbursement options for future non-project assistance.
9. Assess the PSSP's approach to technical and related assistance in support of the policy reform agenda (MSU, LTC, and Cornell). Identify strengths and weaknesses of these efforts, estimate the contribution these are actually likely to make toward improved knowledge for policy formulation and improved and institutionalized Mozambican capacity for policy analysis. Recommend adjustments if appropriate given short time-frame of these efforts; more important, recommend directions and types of future assistance which could be more effective.
10. Assess the USAID Mission's management of the program and its impact on achievement of program objectives.

ANNEX B: LIST OF CONTACTS

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ANNEX C: LIST OF REFERENCES

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